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A.I.D. OVERSIGHT

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AID OVERSIGHT

MONDAY, APRIL 21, 1986

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met at 9:40 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Nancy L. Kassebaum presiding.

Present: Senator Kassebaum.

Senator KASSEBAUM. The hearing will please come to order.

This is the first of four hearings on the Agency for International Development and foreign assistance programs.

These hearings begin a review of foreign assistance by the Foreign Relations Committee with the aim of improving the efficiency and effectiveness of aid programs.

In part, these hearings are normal congressional oversight and will involve traditional questions about any Federal activity. Such questions are especially important at a time of growing budgetary constraint.

In addition, for some time, I have been concerned about development efforts throughout the lesser developed countries, particularly in Africa, and the seeming lack of substantial progress despite very sizable investments of time, money, and expertise.

I know this concern is shared by the chairman and other members of the committee.

It appears to me that there are deep-seated, fundamental problems with efforts to address the plight of people in the Third World. These problems appear to affect not only AID, but other bilateral and multilateral programs, which suggest that this is not merely an AID problem.

Certainly Africa, as a whole, has continued to deteriorate economically, despite massive aid from various bilateral and multilateral agencies, and there seems to be a consensus among experts that the best that can be hoped for is some slowing of the decline.

This is a bleak prognosis, to say the least.

In essence, these hearings are intended to address the question of whether there are concrete steps that we can take to make the delivery of our foreign aid more efficient and to make the results of that aid more effective in addressing Third World needs.

In short, I would like to examine both the process and the product of foreign aid and to identify specific ways to improve both.

Obviously, a part of this assessment involves a review of the constraints under which AID must operate, in terms of congressional funding and directives, statutory obligations, bilateral and multilateral goals, and the AID contract process and the agency's own culture.

Among other things, this requires that we look at the role of Congress in the process and the nature and effects of congressional oversight.

AID is probably the most closely scrutinized agency in the U.S. Government, for the size of its program. Some of this oversight may be warranted; but I wonder if we have not fallen into the trap of micromanagement at the expense of broader policy review.

These initial hearings are not going to dwell on the broad issue of aid policy that are so often debated: accelerated development versus basic human needs; multilateral versus bilateral aid; earmarking funds for specific purposes or nations; and so on.

Instead, we are going to look at the nuts and bolts of aid programs and the operations of AID focusing on such mundane matters as how projects are developed, how contractors are chosen, and how the Washington part of AID works.

We will look in detail at some sample projects on which we have asked AID spokesmen to prepare in advance.

This will help the committee to understand how the system works and to develop a bit of an insider's view, if you will, rather than try to pronounce policy from on high.

While this agenda may not sound exciting or dramatic, I believe that development assistance is a vital part of our foreign policy. It affects not only those in the Third World who are directly involved, but the long-term interests of our own Nation in building more stable international relations.

I want to thank all of the witnesses for taking time from their own busy schedules to appear with us today and throughout the rest of these hearings.

Our first witness is Hon. Peter McPherson, Administrator for the Agency for International Development.

Good morning.

STATEMENT OF HON. M. PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. McPherson. Madam Chairwoman, it is certainly very good to be here.

I want to say how much we appreciate the fact that you have taken an interest in what to some is a mundane topic, but, in fact—at least in this aspect of foreign aid—is vital for its effectiveness. We appreciate the time and effort you have put in.

I have had the opportunity to serve as Administrator now for a little over 5 years. It has given me a chance to see this organization in, I think, almost all of its stages and approaches, and, of course, to gather a lot of views about it, and, I believe, to do a good many things that were necessary to have done.

I have seen the agency respond rapidly to the drought in Africa, and to disasters generally. I think we have a very good and fast response record there.

I have seen us be able to respond quite quickly to foreign policy problems, in part because very early on, within a few days of the administration, I went to see Secretary Haig and asked him, in effect, to have me report to him instead of using the separate sort of approach that had previously been taken. That whole method I think allowed us to be very much a part of the broader foreign policy approach and to have an impact upon how the State Department viewed things.

I think that our foreign policy response is one that has been quite good—for example, in Jamaica, and now in the Philippines, and so on.

The development part of the business, in the view of many, is certainly the core of the organization and is the most difficult and complex part because there are almost no easy, quick answers. Almost inevitably, because of the variety and range of circumstances in the Third World, it takes a great deal of time to get things done.

On the other hand, it is clear that we are, by far, not just the largest bilateral program, but also the pacesetter. We are the organization that other bilateral donors look to.

I want to cover a number of topics today. Let me begin by discussing the need for greater donor coordination.

We are only about 25 percent of the foreign aid program around the world these days. This is in contrast to just a few years ago, when we represented almost all the foreign assistance that was given to Third World countries. We no longer can dictate what happens to foreign assistance in countries.

In my judgment, the facts are that in many countries we do not need significantly more foreign assistance; we simply need to have the assistance used more wisely. You mentioned Africa. About $10 billion a year now is going into Africa, and I think that in some areas perhaps more is needed. But, basically, that $10 billion needs to be used much better, in a more coordinated fashion. We provide only about $1 billion of that $10 billion, by the way.

In recent years, the World Bank, in part at the urging of the U.S. Government and AID, has been more of a leader in pulling together the other donors. In places like Kenya there are several dozen donors. Frankly, I think that the World Bank, in part with the help of UNDP, but largely the Bank, is now the only institution in the world able to pull this all together, to insist that donors do not, in effect, undercut each other in policy dialogs, and to be sure that money is really spent for important things.

So I would urge that in your meetings in the next few days you take a look at this question of donor coordination. It is not enough to simply say that everybody has to talk more and get together better. We have tried that for years.

We need to have the strong role of an international institution with resources behind it to really get everybody to work together, and the Bank is the institution that I think is in a position to do that. With a new president coming on board, an augmentation of the Bank's role is a particularly timely topic in my judgment.

The other topic that I would like to cover briefly, because I think it, too, has a real role in the efficient use of resources, is policy dialog.

You mentioned Africa in your opening comments as the area where a good deal of money has gone into and yet, the continent continues to have per capita food production declines.

Of course, it has to be kept in mind that it is a huge continent and, even though a lot of money is going in, some will argue that the size of the continent can easily absorb that amount of money. Nevertheless, I am convinced that a significant reason why you have had such steady food production declines in Africa has been because the Africans themselves have not had the right kinds of economic policies to encourage production. They have not had appropriate incentive policies.

A cornerstone of the lack of the right incentives has been the agriculture pricing policies where, so often, prices to farmers were held well below production prices.

We can imagine what Kansas farmers would do if they could not get back the money they had put into producing wheat. How much wheat would they want to produce?

Senator **Kassebaum**. They can't.

Mr. **McPherson**. Precisely.

Farmers all over the world are suffering. There is an old saw that farmers may not be able to read and write in some parts of the world, but they certainly can add. This is as true in Africa as it is anyplace else.

Probably the biggest single change in the way we have run the program in the last 5 years has been the increased focus on policies. This is not brand new to AID certainly. But we have put enormous energy into it, and we can point to some good successes.

For example, in Costa Rica, the change in the devaluation of the currency, the emphasis upon various export policies and so on has meant very important changes to that country. Last year, there was a 24-percent increase in nontraditional exports from Costa Rica. It was 24 percent. There is no question that the policies we were espousing to the Costa Ricans were key to that change.

In Somalia, there have been some very important changes, including the beginning of privatization of various government-owned entities.

I emphasize that this is a very important area, and it is not just fast dispersing cash assistance, such as we used in Costa Rica to help facilitate these changes—often we use projectized assistance. About 30 percent of our ESF—this is a point not well known—goes for projects.

When you want to begin to really bring about agricultural change in a country, one of the things that you usually try to do is to set up an agricultural extension-education-research system, such as you have centered in Kansas State, in Kansas. To get that all together, to make sure the extension people are under the same roof as the research people so that you know what to research and you know what to extend, is a policy dialog issue. But usually you need a project to put that all together.

It is the same thing with health. If you are really going to get a health ministry to expand outside the capital city and to engage the populace as a whole, usually it takes a project.

I would just argue that this project process is critical to the efficient use of resources.

Now projects, by the nature of things, take some time, particularly if you are not just going to dump in the money. If you are going to say to a country, we are not going to finance a new agriculture university with research and extension and so forth until you are really willing to make it a model that will work, it will then take some time.

So a good deal of this project preparation really involves discussions with the government.

Let me switch now to another topic. It is a very broad topic that I suspect will end up being the focus of a lot of discussion here.

You have the question of the need, the constitutional mandate, really, for congressional oversight, versus the need for sound use, efficient management of the resources, which Congress appropriates. This is an issue which is as old as Congress, as old as the Federal Government.

There is no one clear answer to this problem. But it seems to me that, periodically, Congress and each individual agency need to sort out where they are in this. The particular balance that now exists has occurred because of a series of historical coincidences as well as from more thoughtful factors.

For us to be able to come to you and say we have problems with the way that particular mix is put together, we obviously need to do our part. In the last several years, we have worked hard to be able, within the context that we have, to more efficiently use our resources and to have a bigger impact on the lives, incomes, and growth of poor countries.

For example, I suppose as big a thing as we have done any time has been to decentralize the decisionmaking process of our agency.

I like to think of ourselves a little bit like the automobile companies where, in the early 1980's, they suddenly realized, that they had a whole series of middle management personnel who were not contributing to income or to production but, in fact, were probably slowing it down. Really, what we did in Washington—this is a little simplistic—but what we did was to take out a whole layer of middle management in Washington. Most of our staff reductions—and there have been hundreds—have been in Washington. The numbers in the field have largely been there because it is in the field where you can have the policy dialog, where you implement things.

We tried to keep policy back in Washington and gave the implementation decisionmaking about how actually to carry out projects to the field. This decentralization never would have been possible if we had not cut out large segments of the Washington bureaucracy. I think the rule of bureaucracy is to reduce in some sizable fashion in order to slim bureaucracies.

We have been able to cut down the size and the processing time of project documents. I am not totally satisfied with this, and this is a continuing effort and I think one we perpetually will have to watch.

We have been able to lengthen tours abroad. The average length of a tour of duty is about 8 or 9 months longer than it was when I came 5 years ago. This is because we have insisted that people ought to stay longer, and excuses or reasons for wanting to change would be more closely scrutinized. Keeping people abroad in one post longer not only saves money because of the transfer costs, but, frankly, you do a better job. There is more continuity in place.

We have increased the use of foreign nationals. If you are a foreign national and have been working for us for 10 years, you have a continuity that you just do not have otherwise. Higher levels of foreign nationals have been employed.

A very important part of this more efficient use of resources, in my judgment, is that Congress provided us with deobligation/reobligation authority. That authority allows us to go to a government minister where a project has not been working and say to the minister, "Look, we don't think it works, and if you don't want to make it work more, we want to take the money away."

That has a real impact.

Previously, when we could not do that, it was a great limitation. Our deobligation authority still has some problems because when we deobligate a health project, we have to spend it again in health, as opposed to taking it over, say, to the agricultural ministry, and we also have to spend it in the same country. The competition between ministries is something that I have noticed to be a key factor in terms of better implementation. Having to keep it in the same country also limits our ability to get better implementation.

Now, usually, when we deobligate, we might want to keep it in the same country, but to be able to really pull it out is, again, a heavier instrument for purposes of getting a government to do the right thing.

I think a good 50 percent of the implementation problems abroad come to getting governments to proceed in the fashion that they need to proceed, and there is a range of reasons why they cannot always do so or why they do not. But the deobligation/reobligation authority is important and Congress provided that to us.

Obviously, this is not a new struggle, this management struggle that we go through. Over the years, there has been a lot of thought given to this, and I think particularly of Doug Bennet's contribution to AID, which is particularly significant, to the evaluation process. When Doug was Administrator, he worked long and hard to put into place a better system to ensure that projects were completed and to examine why they worked or why they did not work in order to learn lessons from them.

We have continued to put a great deal of emphasis on that and have one of our most senior managers in charge of the evaluation unit, a unit in which we have put substantial resources.

Those are things that we have worked on.

There are some, what we consider to be, legislative constraints. Of course, what is a constraint to one is reasonable oversight to another. I am not here really to argue the substantive merits of many of these legislative directives because I think that, one by one, they are largely incorporated in our policy anyway. If I did not have these directives, I would want to be doing roughly the same kinds of things in terms of policy. But they do end up being numerous hoops for us to jump through.

As a former tax lawyer, I am quite accustomed to hoops. Nevertheless, the Tax Code can have a very stultifying impact upon how things actually are done. They certainly can here as well.

AID has some eight separate functional accounts, and we must spend money within those accounts. We have not transferred money between the functional accounts since I have been here. I do not remember any example of when we have done that.

I recognize the major constituencies that each of those has, and I support the basic thrust of each of those functional accounts; but I would urge, in effect, that we look at possible greater flexibility.

There is a whole series of priorities. Most recently, the House has bills on tropical forestry and biological diversity as a new priority for us.

I think those are reasonable things for us to do. But, at the same time I know that it is classical management theory espoused by both theorists and practitioners of merit that, if you are going to accomplish anything of significance, you keep your priorities tight. Government, by the nature of things, has multiple priorities. I often think that the private sector is somewhat lucky since they have to worry about a bottom line instead of 10 different conflicting priorities or more. But, over the years, as the Foreign Assistance Act has become more and more laden, the priorities have built upon priorities.

Those priorities are often reflected in earmarks. Some 75 percent of ESF, for example, is earmarked for individual countries, such as Egypt and Israel as well as for the base rights countries. About 75 percent of ESF, if you include Central America money is earmarked, leaving almost no discretionary ESF. That is one of the reasons the cuts in ESF are of so much concern to us.

The congressional priorities, the earmarks, are reflected in other things as well. There is a 13.5 percent earmark of development assistance for PVO's and cooperatives. We have to go through that. There is an 18 percent ESF funded commodity import program that must be used for agricultural commodities. Nobody would disagree with buying corn, as we are about to do with ESF for Egypt; but it is another thing that we have to check and try to adjust programs if it does not fit.

There is 10 percent development assistance earmark for contracting with minority-owned firms. Only AID, I think, and the Department of Transportation, have that earmark. That is not part of the aid program; that really is an earmark over and above. There are other items under Public Law 480. The 50/50 shipping requirement now is 60/40.

All of these taken together, as you can see, are, by and large, thrusts that we would not substantively disagree with, but it makes for a mosaic of rules and combinations so that almost every dollar has some pidgeon-hole into which it must fit two or three times.

The congressional notification process is one where last year we provided to Congress 849 congressional notifications. In the four committees to which we report on those, 3 percent of the notifications were put on hold for one reason or another, and, in the end, I think only six of those did not go forward.

Last year, we asked that notifications not be required if it only involved a difference of 10 percent or less money being spent. We were not able to obtain that.

The net impact of all of this, though, is really quite something.

This [indicating] is my notification pile. These are the notifications that we sent up here in 1985, some 1,700 pages of notifications. The staff time that goes into this [indicating], of our total interaction with Congress, we calculate is in excess of 200 person-years per year. That amount per year goes into our interaction with Congress and preparation of materials.

Here [indicating] is a pile representing our congressional presentations every year, where we detail the projects and so on. What happens, in a sense, is since we prepare this a year and a half before implementation, many changes come through in the meantime. First comes this [indicating], with all the projects detailed. By the time we get around to doing it a year and a half thereafter, numerous changes are required and we must notify with each change [indicating].

Again, the question is not whether Congress should have reasonable control, but whether or not somehow or other we cannot be subject to the really needed congressional guidance without the enormous work involved in all of this [indicating].

There are some 80 reports of varying types that we provide to Congress annually, and they, too, are part of this 200 person work years per year input to Congress.

As I look back over the 5 years of my being at AID, there are numerous things about which I am enormously proud that we have been able to accomplish. I look at the drought, which was really almost like a war, where we clearly, with congressional help and the help of PVO's, probably were able to save millions of lives. I look at our oral rehydration therapy, ORT, where we really have taken a major lead. We clearly are saving hundreds of thousands, probably about half a million, children per year because of ORT.

It is a marvellous thing, and I am convinced that in the years ahead it will have an impact on millions a year.

We are now field-testing our malaria vaccine. There are 200 million cases of malaria cases around the world per year. We put $30 million into malaria in the last 5 years, a dramatic augmentation of that program, and it is going to pay off.

Also there is the impact that we have been able to have on market forces and economic policies around the world. We really have led in this effort and it is beginning to pay off in many, many countries.

The kind of impact we have had as an instrument of U.S. foreign policy is of great significance to America. There are a number of other things that I think in the years ahead we are going to be proud of. There is a green revolution that we are putting money into in Africa, in terms of research. The privatization goals that each mission has in the next year is to produce or be part of two privatizations per country. It is a goal that we will not achieve in every country, but, overall, I am convinced that we will on the average.

These things have been important. But there is much that can be done. Your focus in this hearing, it seems to me, frankly can be helpful, and we appreciate the spirit in which you have looked at this. It has helped us. Hearings have a way of forcing everybody to look at things once more. As the manager of this program, I have appreciated the opportunity that it has given us.

I hope you will take a careful look at the coordination issue. I think the time is ripe for that issue, and this committee can make its mark in a way that will be very lasting.

I hope you will consider carefully this policy dialog matter because I feel that there is nothing that has been more important to making our foreign aid program work than policy dialog. I note, of course, with pleasure that Ed Feulner is going to testify today. He and his organization have done a great deal in terms of articulating and pointing out the criticalness of market forces on economic policies. This, too, should be focused on.

Last, of course, is the balance between congressional oversight versus management focus and efficiency. This is at the core of what I am sure you are talking about. We hope to do our part. I say again that I am not here to disagree with the thrust of congressional oversight, those goals, but would like to work with you in finding some ways that we might be able to achieve the congressional directives in a fashion that will have less negative impact on the efficient use of the dollars that you generously provide.

Madam Chairman, it is nice to be here.

[The prepared statement of Mr. McPherson appears in the appendix.]

Senator **Kassebaum**. Thank you very much, Mr. McPherson.

I have appreciated the cooperation not only of yourself but of the staff at AID in helping us put this together, and I think the longevity that you have had at AID, while it is only 5 years and sometimes may seem like 50, has been of assistance in trying to develop some continuity of process and thought.

I would like to start first with coordination because you have emphasized this and it has been something that I have felt was important.

There has been a lot of talk about the importance of donor coordination, ever since I have been involved in following this and you spoke of it yourself. Yet there has been very little that has been done, with incremental, I suppose, incremental progress at best.

Why do you feel that it has been so difficult since everyone seemingly would agree that it is important to make this work? Is this primarily a function of the World Bank?

If so, what should the Bank be doing that could be more useful at this point?

Mr. **McPherson**. Coordination is like motherhood: everyone is going to agree that it is a great thing. When I go to meetings as I do at least annually with my counterparts around the world, with the other bilateral programs, we all sit around the table saying that we have to have greater coordination.

But then, when you sit down and talk about how you are going to do a better job in Niger or Thailand, then every bilateral donor has his own procedures, his own parliament or congress that has various directives placed upon their program. In addition, we are the only ones, generally, with staff in the field that can make decisions. In other words, we have a mission director who really has authority in the capitals of countries. But the Germans, the French—well, less the French—and the Japanese—classically the

Japanese—almost no one has anybody else out there who can really deal with things.

So it is hard.

There is much inertia, with many pressures to agree but often nothing happens. The only entity that in my judgment is in a position because of the enormous resources that they have available and their international status—therefore, they can go argue with somebody to do this or that more easily than another bilateral donor can do—is the Bank. This is so for most places.

There are some places where the United States may be so overwhelmingly the largest donor that we can play the coordinating role. But, generally, people do not like to take direction from another bilateral donor. This is just part of the world of nationalism in which we live.

So, why hasn't the Bank done more? I suppose that is the next question.

Well, the Bank has done steadily more in the last 3 or 4 years. They have chaired the so-called consultative groups. We are going to have a miniconsultative group in Tokyo on the Philippines led by the World Bank in the middle of May. We expect to have another such group on Haiti in the weeks ahead.

But it is my judgment that the Bank needs to put the resources and time into doing a good deal more of these. It probably will mean that between annual meetings when all the donors get together, the Bank probably will have to have two, three or four, perhaps quarterly meetings, in the country under discussion. You cannot decide in Tokyo what to do with the Philippines, or what to do in Niger when in Paris. You have to have people get together in Niger who have the authority to really make decisions.

The Bank has the prestige and the power, really, to be able to pull people together. Their power is significantly augmented by the fact that the United States stands ready to really help as the largest bilateral donor. When we say we are really willing to support something, it can happen.

In Francophone Africa, the French and AID and the Bank are the big players.

It is not that big a step, usually. I really feel that with new Bank management—and I am not being critical here of old Bank management—but with new Bank management, it is a time that may well be ripe for a new and important initiative.

Senator KASSEBAUM. Thank you.

I would like to switch now to the congressional side of it.

It is a little intimidating to see all of that paperwork in front of you. I had a feeling when that was placed on the table that that was exactly what it was.

To sort of work through this, I would like to ask you what you see as the differences in direction that come from the House appropriating and authorizing committees and the Senate appropriating and authorizing committees. Essentially, you are working with four different committees.

Mr. MCPHERSON. Right.

Senator KASSEBAUM. Is this a problem in that the different committees go in different directions?

How do you reconcile these differences?

Mr. McPherson. I think the authorization committees by and large have been more inclined toward a looser process.

Senator Kassebaum. Well, we have not even had authorizations very often, of course.

Mr. McPherson. The appropriations committees tend to get more deeply involved in the detail, in the individual CN's, in the individual projects—though not exclusively. I have seen a growth in authorization committee interest over the last 5 years.

I think that we should not be coming up here saying look, we want somehow or other to subvert the interest of our committees. In fact, our relationship with the four committees really has been excellent. I do not think there is any agency in town that has, by and large, better support for the things that we ask for in terms of working out little problems or bigger problems than we have.

We are not trying to subvert that basic guidance. What we need to do, I think, is to figure out how to keep that guidance with less paperwork and in a fashion that does not end up being a kind of micromanagement approach—which it sometimes can be—though not always. I hope I have made the point several times that I am not basically critical.

Frankly, the relationships, again, have been really very good.

Senator Kassebaum. As you know, we have had a 2-year authorization. Do you think it would be useful to have a 2-year appropriation as well?

Mr. McPherson. It would be excellent. But I think it is an extraordinarily difficult thing to do in the current context.

Senator Kassebaum. I suppose.

Mr. McPherson. But surely it would be excellent. It would also be excellent if it were possible to go back in the direction that we once had of sizable parts of our money being no-year money, money where we could spend it over more than 1 year.

We usually get our money in about February. Eighty-five percent of it needs to be signed up with a foreign country by the end of August. It is just too short a period of time.

Even if it were 2-year money—and I am just sort of talking here—even if it were money that went beyond that first year, I think you can see how if we are trying to negotiate with a country on a project or a change of economic policy, if we are under the gun to do something by the end of the first fiscal year, it makes it very difficult for us to achieve what we need.

Senator Kassebaum. We used to have the no-year concept.

Mr. McPherson. Exactly.

Senator Kassebaum. When did that change?

Mr. McPherson. Oh, well before I got here, sometime in the 1970's.

Vietnam really changed the congressional involvement with the Foreign Aid Program, as it did so many things in this Government.

Senator Kassebaum. Recently, we have ended up on a continuing resolution, and usually at that point we try to work in what we can at the last minute.

Mr. McPherson. Right.

Senator Kassebaum. On the notification, how much attention is paid to that?

Mr. McPherson. Well, quite a lot by us.

Senator **Kassebaum**. I meant from here. Obviously you have paid quite a bit of attention. But I wonder how you feel it can be improved. Have we, with the notifications, made recommendations?

Mr. **McPherson**. About 3 percent of these documents get reaction from the Hill, from one committee or other. There are discussions that ensue, and, quite often, well, a percentage of the time, there is a slight modification in the project.

Senator **Kassebaum**. Can you give an example, of what we are talking about, of something that was improved with some comment from here or maybe even made worse. I would just like a "for instance. 'It seems to me that notifications must be extraordinarily detailed.

Mr. **McPherson**. They get into great detail on projects.

I think some of them are important. But, generally, there is a question about a subexpenditure within a project or whether or not we have adequately emphasized an environmental concern or some other issue in the matter. Usually, we are able to say well, here is what we are doing, and attached to the notification, of course, is a project document, which explains the way it works out.

One of the things that I think could be done here is that the conditions under which notifications might be sent could be more limited. Currently, if we want to spend a dollar more for a project than what our original congressional presentation said, then we have to send a notification.

We suggested last year that if there were no more than a 10-percent increase, then we should not have to send a notification. That would cut down this pile [indicating].

If perhaps we could informally agree ahead of time to broad categories for which notification was not needed, that is another idea. Maybe that is something we should have explored more. There may be some broad categories that people do not really care about.

For example, it may be always necessary to send all notifications concerning El Salvador, at least, always necessary in the current context. Or maybe we could have a rolling area of topics. Family planning is a topic of some conversation here. Maybe all family planning or all El Salvador matters could be included. But I would not be surprised if we could not limit the amount very sizably—keeping in mind that it has never been in our interest, let alone over and above whatever moral concerns we might have, it has never been in our interest to be tricky with Congress.

Our job is to lay out to Congress what we are doing, what our problems are. That, frankly, is why we have really excellent relations. We may disagree about this and that but we lay it out.

I am convinced that there ought to be some way in which we, perhaps even informally, could work to substantially restrict what you need to see.

Senator **Kassebaum**. I would like to ask for a moment about the set-asides for PVO's, for minority and women owned businesses. You touched on this and on some of the frustrations of meeting those mandates.

How has AID implemented these set-asides, and how much are projects affected by these mandates that you have to meet?

Mr. **McPherson**. Well, we know we have them from the very beginning of the year. We know we have to meet them. In some cases, in effect, regions or countries are given quotas to meet certain mandates. It depends upon how well things are falling into place.

They shape the program from the very beginning. Sometimes that is a problem; sometimes it is not. I think the PVO one, for example, we at this juncture would probably exceed the mandate even if there were not an earmark. In fact, we are now exceeding it. I would imagine that the AID-PVO cooperation will continue to grow.

The minority 10 percent is a lot harder. We have spent a lot of energy trying to be in a position to do it.

The problem is that Congressman Gray feels strongly that we have to do more. We were an agency answering to the committee on which he sat and he just said here it is.

Congressman Gray has been very helpful to us a number of times. We are trying our best to do the job.

Senator KASSEBAUM. Now, I may be wrong on this, but ESF does not have to meet these same mandates.

Is that right?

Mr. MCPHERSON. That's correct.

ESF has its own set of mandates, though.

For example, there is an 18-percent earmark for the ESF CIP Program for funds which must be spent on the purchase of U.S. agricultural commodities. And, of course, there are country earmarks, such as $15 million for Cyprus. I have argued here that I think we have built almost every house and educated most of the children, and I don't know what else we can do in Cyprus.

Senator KASSEBAUM. In your view regarding the PVO's, what do you think they do best and what might their weaknesses be?

Mr. MCPHERSON. I think PVO's are very good, excellent at disasters.

Senator KASSEBAUM. Pardon me, excellent at what?

Mr. MCPHERSON. Excellent at disasters, at working with disasters.

There is no question that PVO's played an absolutely critical role in the feeding programs in Africa this last year.

In Africa, there are many places where we should be doing small projects, where we should be working with villages to improve the irrigation systems or other sort of micro-efforts. PVO's probably work at that more than anyone else.

What PVO's are not good at, generally, are the planning and implementation of large, say region-wide, agricultural programs. Many of them simply do not have the capacity. It is a little like the difference between the Peace Corps and AID as an institution. The Peace Corps always has been very good at hands-on, smallish projects, but does not have the capacity for macroeconomic thinking and planning, and really large project implementation.

I see the PVO's generally, though it is a constantly changing situation and there are now some bigger PVO's, being roughly in the same position.

Senator KASSEBAUM. How do the cost structures of the major PVOs compare to other non-PVO contractors, such as land grant universities, private consulting firms, and so on?

Mr. MCPHERSON. How do they contrast?

Senator KASSEBAUM. How do the cost structures compare between those groups?

Mr. MCPHERSON. Well, they do different things. But I think on a per person basis, PVO's are often quite inexpensive. Somebody from Kansas State or Purdue, who is going over there to do research on a higher yielding sorghum in Sudan or somewhere else on the continent, is going to cost in excess of $100,000. He or she probably will be mid-career, probably will be a fairly expensive professional. By contrast, the PVO worker may well be a 22 or 23 year old, just-out-of-the-Peace-Corps-type person, who will be much less expensive, and what you will need to provide that person is a lot less.

So, you are sort of comparing apples and oranges. But on a straight dollar cost basis, let me put it this way: The higher the professional level of the service required, the more it is going to cost. Universities will ordinarily provide a more highly technical service than will PVO's.

Senator KASSEBAUM. You mentioned research. I have always wondered in research and preselection evaluation and so on if this is not something that must be enormously repetitive. Over the years, has there not been an awful lot of research done on various crops, various health programs, educational programs, that must be in a drawer somewhere? Are past studies of, say, 10 years ago taken into account as we do present studies?

Mr. MCPHERSON. They certainly are taken into account.

It is my judgment that a major hindrance in the Third World today is the lack of appropriate technology. In other words, in the Sahel, you do not have a variety of sorghum or millet, in some parts of the Sahel anyway, which will yield substantially higher levels of production than what historically was the case.

There is not what you would call shelf technology around to do that.

Senator KASSEBAUM. But haven't we been studying that for a number of years?

Mr. MCPHERSON. Well, some.

In fact, in Sudan, as a result of the study, we have now produced a sorghum which has about a 100 percent yield increase over traditional sorghum. The real effort going into sorghum and millet, which are the grains of the poor in the Sahel, really began sometime in 1978 or 1979, or so. So it is a relatively recent major research effort.

Now, there has been a lot of research on wheat, but wheat is not the grain of the really poor areas.

Senator KASSEBAUM. Yes. But then you have to wonder why we spend so much time on wheat, when, indeed, it really was not the grain for those areas.

Mr. MCPHERSON. Well, of course, for Mexico it was the major thing. The "Green Revolution" that took place in the world in the mid to late 1960's had enormous impact on wheat production in places like Pakistan and Mexico. It was very important.

Pakistan, in about a 10-year period, went from about 5 million tons a year to about 12 million tons in production. It had just a huge impact.

Mexican production increases were at least as great.

Senator **Kassebaum**. But I was thinking more of just Africa.

Mr. **McPherson**. In many ways, during parts of the 1970's I don't think we put enough into agricultural research. We did not do the right kind.

Now, in the late 1970's, we began to undertake a major sorghum and millet research program. That is beginning to pay off. That sorghum out in the Sudan is going to have a major impact in that country. It is a hybrid sorghum.

We think that 25 percent of the land, of the traditional sorghum land in Sudan, planted with this new hybrid sorghum, would make up the grain deficit in Sudan itself.

Now we need those millets and sorghums for the rest of the Sahel.

It is like malaria. We put $30 million into malaria. We are now the largest single contributor to malaria research in the world. We now have this vaccine that we are field testing. There are four strains of malaria. The vaccine for the biggest killer strain is what we are field testing. The impact that will have will just be revolutionary.

We are now field testing the so-called implant, which is a family planning program. It is a little device that is a time released capsule which goes right under the skin of a woman's arm. That implant will last for from 3 to 5 years. That will have a revolutionary impact, we think, upon the availability of family planning services in the Third World, and we are now testing that.

Some other people did the basic research and we are now spending a lot of money now to test it along with some others.

I think it is true that a lot of research has been done around the world. But I would argue a couple of things.

One, a lot of it really has paid off. My father's cornland 30 years ago produced something like 50 bushels an acre a year. That same land now produces about 120 bushels an acre. That kind of impact has done for us and our agricultural production a great deal. The "Green Revolution" has had an impact. Now what we need is for Africa to have its own "Green Revolution" so that its farmers can do a better job feeding itself, and, ultimately, a "Green Revolution" in Africa I think will mean more imports of things like wheat from our own country. I think it will be good for our own farmers, actually.

Senator **Kassebaum**. Let me ask you a bit about the functional accounts and if you believe they assist or hamper the implementation of policy.

Mr. **McPherson**. I think there may be no way that functional accounts overall are going to be completely eliminated by Congress.

I would like to have greater flexibility here, of course, but I think you have such a strong health constituency and a population constituency and an agriculture constituency, and so forth, that they would never be entirely removed. I understand that.

I would like to have a good deal more flexibility to move money, maybe even near the end of the year to move money, at least 10 or 15 percent of the accounts. Technically I guess I have the statutory authority to move 10 percent, but, as a practical matter I do not have that authority. The one time I proposed it, there was such an immediate reaction that I decided that prudence had better move me right back.

This was something like 3 years ago when we suggested it at one time.

The functional account relationship to the de-ob/re-ob authority is another issue. It is a restriction. We spend a lot of time worrying about how to fit things in.

An interesting issue that we have right now is this: is nutrition health or is it agriculture? We say that it looks like a health item to us, or at least some part of nutrition considered reasonably ought to go into health. But there is some reaction on the Hill that that should be an agriculture item.

This is the sort of problem we run into.

Senator **Kassebaum**. Does that in any way affect the coordination with the donors, other donors, as far as having to work within certain functional accounts?

Mr. **McPherson**. I do not see it as a major coordination problem. It is really our own administration problem.

Senator **Kassebaum**. Now, the Sahel development is nonfunctional, is that right?

Mr. **McPherson**. Yes, it is nonfunctional.

Senator **Kassebaum**. Have you been able to analyze whether that, being nonfunctional, has worked in a way that has given you a little more flexibility and initiative, compared to the functional items?

Mr. **McPherson**. There is no question it has been a major benefit to us managerially. We have been able to work with that nonfunctional account for the Sahel very well.

I think Congress saw, in fact, that it would be more helpful to us to have such a matter.

You will soon be getting a request concerning the Philippines. I do not think I am talking in any way that is harmful, or out of school. Among the items that we will be talking to you about is whether or not we can have some flexibility on past obligated moneys in terms of their functional account re-ob use.

Senator **Kassebaum**. Since you mentioned the Philippines, let me perhaps close this part of the questioning by asking you how you answer those, and there are many now in this country, who wonder how closely we monitor our support funds. There is some question, of course, about whether President Marcos might have channeled some of this money for his own use.

I think this is an important question for us to answer. How closely can you monitor those funds? Can you keep them separate, as a matter of fact, for purposes of accounting?

Mr. **McPherson**. We think we are able to do so pretty well in the Philippines, in part because within our own agency, our inspector general, had a really great interest in tightening down the moneys a few years ago. Also, as the election approached in the Philippines, we had some word that there was going to be an attempt to divert some of our resources, so we sort of closed in with especially close scrutiny of how things were to be done.

We recently received a letter from the Minister of Finance, who had been working with his ministry on the audit of the funds. That letter essentially says that to the best of what they can find, and to their knowledge, there was not a diversion of the ESF resources there for election purposes or other unauthorized purposes in the last, I think it was 3 years, that he was looking at.

It was a very positive letter and I would like to supply that letter to you if I might.

[The information referred to appears in the appendix.]

Senator KASSEBAUM. Well, not just focusing on the Philippines, although that is a question that certainly has come because of that, let me ask you this.

Do you have an annual accounting by country of the funds?

Mr. MCPHERSON. There are three sorts of audits that are done. One, of course, is the periodic GAO audit of various programs. Second are those done by our own inspector general. Third, several years ago, especially for Africa, we initiated an aggressive program of having mission directors have on tap local accounting firm services—contracts with local people. It did not work in all places, but did in a lot of places. Having on tap those accounting-auditing functions that we paid for has, we think, strengthened our program quite a lot.

Now I believe this. I believe that we have been able to do a pretty good job of tracking our own dollars, of being sure that our dollars went in a formal sense for what they were supposed to go for.

We have spent so much time and energy on this because periodically it has become a major issue in the agency, and I think our system is pretty good. Significant resources and energy are spent on this.

Now, that is a different question from whether or not the money, when it was spent for what we wanted to spend it for, actually achieved what we wanted to achieve. But it is my feeling that there are some problems, but you get those same problems whether you are in Detroit, Chicago, or Tampa, and I think, by and large, we were able to account for our dollars.

Now that is not the end of the accountability trail from my point of view, as I have indicated. The end of the accountability trail is how much you were able to achieve of what you wanted to achieve.

Senator KASSEBAUM. I have many more questions that I would like to ask. I very much appreciate your testimony and would like to suggest at this point that the next panel present their case. You have indicated that, if time allows, you might be prepared to come back and join with the next panel in answering some questions, after they have completed their statement.

Mr. MCPHERSON. I have some problems down at the other end of the street here, but let me see how the morning goes and how much time there is.

Senator KASSEBAUM. That's true. We always do run longer than we anticipate.

Thank you very much, Mr. McPherson.

Mr. MCPHERSON. Thank you, Madam Chairman. I appreciate your time.

Senator KASSEBAUM. It is a pleasure to welcome the next panel. We have Mr. Douglas Bennet, former Administrator of the Agency for International Development; and Mr. Edward Feulner, president of the Heritage Foundation.

Mr. Bennet, would you care to begin.

STATEMENT OF HON. DOUGLAS BENNET, FORMER ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT; PRESIDENT, NATIONAL PUBLIC RADIO

Mr. BENNET. Madam Chairman, I appreciate the opportunity to testify again before the committee. I was Administrator from 1979 to 1981, and I have a special sympathy for what you are talking about this morning because of some other previous incarnations.

I was also Assistant Secretary of State for Congressional Relations, and, before that, staff director for the Senate Budget Committee. Way back, in the 1960's, I actually served in New Delhi for 2 or 3 years in AID, so I have had some field experience as well.

Throughout all of this, I have learned more and more that I am no expert. I have relied on colleagues and on people much better informed than I.

But, nonetheless, I am happy to be able to try to help you address what I think is a very important set of issues.

U.S. efforts to help Third World development constitute one of our most distinguished contributions as a nation since World War II. I think we can claim at least some of the credit for the fact that development has worked and is working in many places.

While we worry today about Africa, I feel utterly confident that we will be able to organize our activities and coordinate them with those of other donors and with the African countries themselves, so that 15 years from now we will be saying about Africa what we are saying about India today.

When I was India, it was deemed to be a "basket case" in the midsixties. Clearly, it is no longer.

I am very proud to have been part of that activity from time to time, and I continue to believe that AID does an extremely good and important job.

But, the committee is also correct to grapple with the complexities of achieving rapid development and figuring out ways of adjusting flexibly as countries move forward and their needs change.

My central message today, however, is that the administrative issues are simple and probably quite manageable, compared with the fundamental difficulty that the United States has in creating a policy context for the efficient pursuit of our goals in the Third World.

We can talk about coordination of AID activities internally in the U.S. Government or with other donors; but if we do not have a stable policy context in which to work, it is very hard to achieve that coordination.

We can talk about streamlining administration, and you run into the same kind of problems.

We have had discussion this morning about effective oversight by Congress. Congress is not conducting effective oversight if it receives this many papers [indicating], and I am sure that Peter could have brought you many more. It is impossible.

Somehow you are asking the wrong questions and you do not have the measuring sticks that you need to test whether the program is effective.

You do not care whether a specific project goes up or down 10 percent. What you want to know is whether the policy that the United States wishes to pursue is being effectively pursued.

I would go even further. Listening to the discussion this morning, it seems to me that congressional prerogatives are not exercised in this sea of minutiae; that it does not have that effect; and, finally, that the political position of the members of Congress is jeopardized, rather than enhanced, by all of these tiny, little injections.

I was listening to the discussion on Cyprus. I can remember both as Assistant Secretary of State and as Administrator of AID the difficulty that that issue presented. It also presents a credibiltiy problem. I mean, the public cannot look as a totality at a program that insists—well, let me say this. I love Cyprus and I understand the reason why the aid is there. But in terms of a national priority for the expenditure of $15 million or whatever it is, that cannot possibly be one. And yet it is there.

Why is the policy context so important?

It seems to me that we all recognize that development success is determined by a lot of forces over which we have varying degrees of control. At one end of the spectrum, you might put natural disasters or the human energies of people in Third World countries. At the other end, you might place an individual successful aid project. But, in between, there are matters like the rate of global econonic growth, market forces, world monetary behavior and intrest rates, trade, domestic budget exigencies in the developed countries, and the development policies and administrative finesse of the developing countries. All of those things are only partially within our control. And yet, they have an enormous impact on development.

So, what do you do about them?

It seems to me that the challenge is to manage what we can control so that we can squeeze developmental energies out of these other forces and other factors as they evolve.

Part of the answer is brisk and flexible administration of U.S. bilateral assistance, assuring that the aid is allocated according to orderly priorities and that it will have maximum developmental impact with the greatest possible multiplier.

I might say that I have been impressed with what my successor, Mr. McPherson, and his people have achieved in that direction. The internal priorities of the Agency are much better stated now than they were in my time. I have no first-hand experience at all, but I think, on paper, that it is a better run organization now.

I think the committee has an important opportunity to streamline procedures and eliminate some barnacles in the legislation. They may have seemed like an interesting idea when created years ago but which now, in large clusters, are slowing the ship down.

Just as we try to insist on efficiency and rational decisions in the countries we assist, so we should impose the same discipline on ourselves here.

As a former "barnacle remover," I would like to say that I never found resistance in Congress if I could come here saying look, this was put in 3 years ago; the reason we put it in at the time was such and such; it has turned out to be administratively terribly cumbersome; it is not serving the need that you intended, and here is a better idea—this worked in most cases.

I take it that the same spirit exists today or this hearing would not be held.

But let me not get off the more important point. The United States continues to lack a coherent policy to guide all of its relations with the Third World. Layer upon layer of new priorities in the aid legislation is not policy.

Sporadic disaster relief and military intervention, either directly or through military aid, is not policy.

What is it that we want to have happen in the Third World through the remainder of this century and beyond? What is important to us in terms of our security, our economic well-being, our stability as a society, and our ethical concerns?

It is not our habit, as a nation, to answer such questions very well, and until we can give simple, understandable answers which will hold up from one administration to the next on a nonpartisan basis, I feel that the second order questions, about how we coordinate and efficiently administer our activities, cannot be answered satisfactorily.

Conversely, as long as we rely for political purposes, on the kinds of minute controls that I mentioned before, we cannot keep faith with the American taxpayers by delivering to them a truly high impact foreign assistance program.

Thank you.

Senator **Kassebaum**. Thank you very much, Mr. Bennet.

Mr. Feulner.

STATEMENT OF HON. EDWIN J. FEULNER, JR., PRESIDENT, THE HERITAGE FOUNDATION

Mr. **Feulner**. Thank you, Madam Chairwoman.

I am honored to appear before this committee again and I commend you for your leadership in calling these hearings. I think it is appropriate that you and your colleagues focus on the forest and not just on each of the trees that makes up our foreign assistance program.

I am somewhat of a bridge between Messrs. Bennet and McPherson, having for a brief period in my career, in late 1980 and early 1981, had the honor of chairing for President-Elect Reagan the transition team at AID from the Carter to the Reagan administrations.

I must candidly admit, Madam Chairwoman, that that is the extent of my personal involvement with AID from the inside.

I have, however, over the last 20 years had a number of occasions to discuss, to write about, to debate these questions, both here in Washington and at various places in the field, and I have come to a number of conclusions which I would like to share with you today.

I come first as a defender of AID's mission. Helping the Third World achieve real economic growth should be a high priority for U.S. Government policy. Fostering economic growth promotes better, more productive, lives for the people of the developing world. It also leads to greater global stability by reducing trade frictions, countering Communist aggression, and solving the debt crisis.

However, I believe that AID must understand that these goals can best be achieved by gearing its operation toward a greater emphasis on the free market and the private sector.

Administrator McPherson and his colleagues at AID deserve praise for many of their programs, especially in the area of technology development in the lesser developed countries. It directly helps improve the lives of aid recipients.

A good example of this use, to which Peter has already referred, is the Oral Hydration Therapy Program for babies who suffer from life-threatening dehydration.

AID has also demonstrated some progress toward institutional reform by such means as revising internal bureaucratic incentives to reward career employees and to move new directors of programs for particular countries as a means of both implementing and developing the most effective programs.

But, in its most important and long term aim, promotion of market-oriented changes abroad, which will increase real economic growth, AID, I am afraid, has largely been a failure.

To be sure, AID takes credit, along with the World Bank, for promoting market-oriented changes, such as the eliminating of price controls and subsidies in certain Third World countries. However, these changes often have been neutralized by AID's support for higher taxation and rigid budget balancing, which have the perverse effect of stifling individual incentives and reducing economic growth.

Although this administration has a stated policy of encouraging private enterprise in the developing world, AID has not directed major efforts toward the removal of the many and varied obstacles inhibiting indigenous private enterprises in recipient nations. In fact, much of AID's attention seems to have been focused on subsidizing U.S. business sales abroad.

Here, of course, I acknowledge the constraints that Mr. Bennet referred to in terms of our inability to affect all conditions in host countries. However, it is my position that we can do more than we have been doing.

Virtually all of our aid grants and loans have been funneled through recipient governments. This not only strengthens the governmental sector relative to the private sector; it helps perpetuate governmental failure. The easy availability of foreign aid, in other words, prevents governments from reassessing their failed policies.

Yet today, at long last, many governments around the world seem to be confronting the bankruptcy of their past policies. We now see many of those governments, even socialist ones, privatizing nationalized firms, cutting taxes, encouraging domestic investment, loosening restrictions on foreign direct investments, and taking other actions to free the private sector.

This new attitude of realism has been complemented by new attitudes among the development institutions. Last year, for example, Treasury Secretary James Baker presented a plan for dealing with the international debt crisis which basically requires developing countries to adopt free market policies as a condition of both official aid and private bank loans.

The interesting fact about Secretary Baker's initiatives, I believe, is that the reaction from developing nations, from the industrialized countries, and from the World Bank itself has been positive. It was as though Secretary Baker simply articulated or made official what everyone had come to accept as the necessary precondition for an effective developmental policy.

In my opinion, the Baker plan forms a framework for dealing with the Third World which ought to apply to U.S. bilateral assistance as well. I believe U.S. development assistance ought to be directed more toward inducing the kinds of policy changes in the developing countries which will foster growth through the private sector.

Basically, this involves removing government impediments and disincentives to that private sector.

Now, what must AID do to promote private sector development in the Third World? Let me make seven specific suggestions, some of which may sound perhaps a bit redundant to comments of both Mr. McPherson and Mr. Bennet.

First is to coordinate other U.S. policies which relate to the developing world. For example, it is no news to anyone in this body that trade policy is increasingly important and there is enormous political pressure here in the United States to put restrictions on imports from developing nations.

I believe it could be helpful if AID would be a more forceful advocate for the expansion of trade as a prime means of helping the Third World.

Second, I think there also needs to be better coordination between U.S. bilateral aid programs and those of the multilateral development banks and the IMF. With a new president of the World Bank coming in, my colleagues and I believe there is an exceptional opportunity to coordinate more closely bilateral programs with the World Bank.

In this connection, Madam Chairwoman, I particularly call your attention to a recent Heritage Foundation backgrounder which my colleagues produced entitled, "Barber Conable at the World Bank: New Hope for World Economic Growth," which enumerates some of these opportunities.

Third, many developing countries know they need to make economic reforms, but they do not know how or what to do. In tax policy, for example, AID could develop model tax systems for developing countries based on the principles of low marginal tax rates, fairness, and simplicity.

A good start was made in this regard last year when AID commissioned Alvin Rabushka of the Hoover Institution and my colleague at The Heritage Foundation, Bruce Bartlett, to study the tax systems of the developing nations and their impact on growth. Their work shows clearly that those nations with low marginal tax rates do better than those with high rates.

The same kind of research I believe needs to be conducted in such areas as privatization, deregulation, and trade.

State-owned enterprises in developing countries are grossly inefficient. Many developing countries, both on their own and at the urging of the United States are considering privatizing these State enterprises, that is, turning them back over to the private sector.

Techniques and strategies for privatization have been developed here in the United States and in Great Britain. Successful privatization efforts have yielded valuable lessons. Yet much of this information is unavailable and unknown in developing countries. AID could render a valuable service by collecting and distributing this information to developing countries wishing to strengthen their economies by ridding their governments of wasteful State enterprises.

Fourth, AID's current, unwieldy bureaucracy could prove to be a more efficient policy instrument if it were reorganized and streamlined along the lines of some of its more effective divisions, such as the Office of Foreign Disaster Assistance.

Fifth, AID's statutory authority, objectives, and focus should be amended by Congress to more clearly define our policy goals. Much U.S. foreign aid is security related, in contrast to humanitarian or developmental assistance.

Clearly, a significant proportion of AID moneys allocated for ESF are really security related as they are used to maintain political stability in recipient nations. AID's functions should therefore be divided proportionately between political security divisions and economic developmnent divisions. A portion of ESF I believe should be used solely for the provision of direct cash grants to recipient nations on a "strings attached" basis, and would be made contingent on recipient nations implementing policy reforms that promote the private sector and tax reform along the lines of the Baker plan. I dub these incentive grants structural reform inducement funds, or SRIF's, to lend a diplomatic facade to what would really be an economic incentive to get important policy changes.

Disbursements of these SRIF's would be made contingent on recipient nations implementing policy reforms that promote the private sector and advance meaningful tax reform.

SRIF grants would also be more efficient, I believe, than AID loans, which rarely meet repayment schedules and which represent a nightmare for the GAO. I believe SRIF grants would promote honesty in accounting and frankly, give the United States greater leverage over sensible policies in the recipient countries.

Let me digress from my prepared statement to give a concrete example.

Not long ago, we were honored to host a prime minister from a small Caribbean island country. We bounced this idea off of him and the proposal was greeted rather enthusiastically because the first thing that he said he would then try to do would be to make some early retirement payments to some of the senior bureaucrats in his government, which he frankly and candidly admitted was grossly overstaffed.

It is that kind of targeted objective which, in fact, perhaps could give us a little bit of new leverage.

Sixth, AID's true developmental and humanitarian functions could be served by a streamlined division oriented toward small, grassroots style development projects. In this era of Gramm-Rudman-Hollings, we should work on trimming some of the big ticket projects.

I reject the idea that the West must continually subsidize the developing world because these nations are unable or incapable of adopting our standards of entrepreneurial activity and self-sufficiency. Given the chance and the proper incentives, any Third World country can become an economic success story.

The small West African nation of the Ivory Coast is a prime example of this, with an economy so strong that it plays host to nearly 2 million guest workers from neighboring countries.

Finally, I think the Congress should consider legislation to explicitly tie levels of AID assistance to recipients' votes in the United Nations and their overall support for U.S. policies. Frankly, I find it absurd that a country like Zimbabwe is one of the largest recipients of U.S. assistance in Africa, even though our U.N. Ambassador, Vernon Walters, rates it as the most hostile to the United States of all the nonaligned black African states.

In conclusion, Madam Chairwoman, AID's mission is a noble one. Assisting Third World development provides economic and social stability, two of the cornerstones needed for the construction of democracy.

At the same time, aiding free market economic growth serves our international security interests, both by alleviating social and economic inequalities and also by offering a clear contrast between the dead ideology of Marxism-Leninism, on the one hand, and a system of democracy and a free market on the other.

However, we can do better and I believe these hearings are a positive step in that direction.

Thank you.

[The prepared statement of Mr. Feulner appears in the appendix.]

Senator KASSEBAUM. Thank you very much, Mr. Feulner.

Both of you touched on the importance of trade policy.

Mr. McPherson, will you have to leave now?

Mr. MCPHERSON. I will have to leave, Madam Chairman. I certainly enjoyed hearing the statements. But I do look forward to being back on Thursday.

Senator KASSEBAUM. Thank you very much.

Both of you touched on the importance of trade. I would like to ask you how—and maybe this fits in with the policy context that you described, Mr. Bennet—we could coordinate and how would you suggest coordinating trade policy and implementation with developmental programs? Is this something we should be doing institutionally?

Mr. Bennet.

Mr. BENNET. In answer to any of these questions, there will turn out to be some institutional coordination that is necessary. I think that articulating a fairly clear trade policy that takes account of the needs of Third World nations is important. I might say, parenthetically, that I think our behavior in that respect has recently been favorable.

There was a time last winter when I think many people were concerned about the prospects of Third World exports. The developed countries felt there might be a protectionist reaction that could damage that requirement for development. But that has not happened. And I think that is all to the good.

There still are, obviously, restraints on exports from developing countries to the developed world and there are great instabilities in commodity markets that are very damaging to developmental prospects. But I think what we are doing now in trade, which is to say not much by way of protectionism, happens to be a sound policy in terms of Third World development.

Senator **Kassebaum**. If I may follow through for a moment, you stressed the need for a policy concept and believed that that is what is lacking today. Has it ever existed?

Mr. **Bennet**. I don't think so. That may be a great overstatement.

Senator **Kassebaum**. Maybe it is unfair to ask if you operated under this policy concept.

Mr. **Bennet**. I operated in a circumstance where there was an inadequate policy construct. I think that it is not peculiar to any administration.

Frankly, I think that, as a Nation, as I said in my opening remarks, we are simply not in the habit of thinking in policy terms. We behave in certain ways and our behavior changes from time to time in response to certain circumstances. The trade case is a good example.

I do not think that rises to the level of policy. It happens to be behavior that makes sense to me at this point. But we are a Nation that has had enormous power in the past and enormous resources and, therefore, much less of a need to plan or to behave efficiently in many respects, in many parts of our activity, than a smaller nation might have done.

The result is that our political system is organized in a way that does not support policy maintenance or address policy challenges. It supports ad hoc political responses.

Senator **Kassebaum**. Well, I am guessing, Mr. Feulner, for instance, that you would emphasize privatization as part of a policy concept.

Mr. **Feulner**. Indeed. Yes, I would, Madam Chairwoman.

But if I may return to the question of trade just for a moment, I would say that in the past, there have been heavy emphases that have been very helpful in terms of expanding, or of economic development, really, in the Third World, such as the GSP process. Perhaps at one time or another, it was oversold in terms of the positive impact it might have on the Third World. But it was a broad construct in which we did say that we were going to encourage exports from the Third World into our own country and into other developed countries.

I would take that at this point in terms of a specific policy recommendation a step further. In terms here particularly of the so-called "newly industrialized countries," the NIC's—Korea, Taiwan, and Singapore come to mind—which are about at some point to graduate out of the GSP category, we ought to be pursuing aggressively with them questions like free trade areas, which we have already implemented on a bilateral basis with Israel. As you know, there is also one currently pending with Canada.

We should move the policy focus in the direction toward more trade with the belief that this is in the interest of both sides, instead of continuing putting up new barriers, and continually increasing the hurdles that each one of us has to overcome.

So, there are some broad policies like trade which could be pursued.

Senator **Kassebaum**. But it does come and go, as you say. I am thinking of Central America and the Caribbean. There are sugar quotas and textile import quotas.

I found it interesting in the Kissinger Commission report that at the same time as the recommendation was made to put a great deal of money in the area, we still have certain trade restrictions. We found it awfully hard, I think, to deal with the effects of a coming election or our own economic concerns here at home.

It becomes very difficult to do.

On the whole, I think we have kept protectionism at bay far better than any of us would have thought 1 year ago. But it seems to me that, when we talk about a policy concept, we have to be flexible. Perhaps it changes from area to area.

I think it is important to have a framework. But, I think it is extremely difficult to implement.

Mr. **Bennet**. Well, I think it is difficult to implement and I do think it should be flexible, and I think it will never be perfect. In other words, it cannot be a straitjacket. But it does have to be enough for you to be able to rely on, or any member of the Senate. When asked, you have to have a better answer for the relationship between the sugar prices and our aid to the Caribbean. It may be that the answer is that we cannot solve that equation right now but we are aware of it, aware of the contradiction.

We do not have an adequate mechanism for floating those contradictions up. I agree, I think, that the move toward privatization is a good thing. I am not sure whether, as a matter of national policy, that I would have it in our policy, since I notice that it is happening anyway in the policies of many developing countries. It may be something that ought subtly to be advanced and not articulated as a national goal since it might create resistance in the developing countries.

Senator **Kassebaum**. I have found the whole issue of privatization an interesting one in the Third World. Let's take Africa in particular, where I have tried to analyze it.

I think, we all recognize that it would be of great benefit if the cooperatives in agriculture were privately run rather than State-owned, as they are in most countries.

But how do we make that shift? Do we condition our aid? Do we, as you suggest with the inducement funds, set requirements before any funding can be given? And is this done in coordination with other donors, as far as possible?

At what point does it become a rather self-righteous thing, to tell another country exactly what they are to do? I think it is awfully hard to know at what point to attach strings and do it in such a way that we show sensitivity to national concerns.

Mr. **Feulner**. I think, when we get down to the concrete reality of a specific case, within this broad framework, you very appropriately have put your finger on one of the real problems.

I think one of our efforts, though, certainly should be encouraging these actions in terms of sharing success stories from one country to another. I have had long discussions with Messrs. Bennet and McPherson over the years about developing that kind of mix that says yes, in this particular case maybe it would be very inappropriate for the United States to be the heavy and come in on the bilateral program, maybe we should talk to our colleagues at the IMF or the World Bank and see if jointly there can't be a presentation. Other times, as I indicated in this one case we had in the Caribbean, because of a very strong, pro-American sentiment, in fact, they were looking for guidance from us.

So I think that kind of question very much has to be determined on a case-by-case basis. Of course, I would not encourage it if it were, in fact, to be counterproductive in a particular bilateral relationship either.

The point I would repeat is that I think, as you point out, this is a trend that really has snowballed around the world. And what it really points out is that there is now emerging a new consensus around the world of what works and what does not, and we ought to be encouraging this trend because it is so compatible with our basic beliefs anyway.

Senator **Kassebaum**. Let me ask you this. Who is best equipped to encourage policy reform? Is it AID? Is it the PVO's? Is it the World Bank?

IMF, of course, has taken a very strong position in requiring that certain things be done for any additional funds. Sometimes I wonder if we do not push so hard that we risk creating an opposition that could result in overthrow of a government. As you say, we must watch these situations closely. Is there any avenue other than government to government relations? Is there any opportunity to work through the PVO's or anybody else?

Mr. **Feulner**. I think there is.

Again, I think that that is something that has to be done within a broad policy framework on a case-by-case basis. But here I take the emerging situation that everyone, of course, is very concerned about in the Philippines. It is a good case study. There have been a number of specific delegations, not just since the last 2 or 3 months of this year, but over the last year or two, visiting various private institutions in Washington to see how they might set up a think tank in Manila on the outside that could advise the Government in terms of what works economically, in terms of economic development.

So I think there are both those individual, indigenous institutions in specific cases, as well as our own external institutions. It is that delicate mix that I think has to be put together.

Senator **Kassebaum**. Well, the problem in the Philippines was not so much a State-owned economy as it was a corrupt operation with a few large benefactors—was it not?

Mr. **Feulner**. Well, the State did, however, control through various marketing vehicles a large percentage of the economy in terms of the export sectors. There was a fairly substantial socialized sector, too, of the economy, and there still is, for that matter.

There were other problems in addition, of course. My point in specifically mentioning that is that there may, in fact, be emerging new indigenous institutions that can look at these problems.

Going back to the question that you and Administrator McPherson were discussing about yield crops in the Sahel, those questions are all very interesting, and it is the sine qua non for effective development. But the fact is if that crop has to be sold to some government marketing agency at a price at or below what it cost to produce it, it does not matter what you are planting because it is not going to work in terms of meeting the real needs. It is not going to be successful.

Senator **Kassebaum**. Mr. Bennet.

Mr. **Bennet**. May I just take a shot at the question of how you do influence developing countries?

Obviously, you do it, as Ed was suggesting, in a variety of different ways within a policy framework.

I think it is terribly important that the commitment of the United States to all these very avenues be clear—that is, that we be clearly committed to development, which I think we have been over the years; that we be committed to a theory of how development is likely best to take place and into which the privatization idea might fit.

Now you would have to expect that theory to change over time, but it needs to be there.

Finally, we need to be committed with our resources so that there is no question about whether you are going to support IDA or not. If you are, you do it, and if you are not, you have a compelling reason not to.

But, being at the table and being credible at the table is absolutely critical. We are talking about moving not just billions of U.S. dollars but trying to deflect tens and hundreds of billions of dollars worth of economic activity by encouraging policy choices, by encouraging trade, and so forth.

Under the circumstances, this country is potentially in the position to be a very heavyweight player, no matter in what context you are talking about, whether it is PVO's, respecting their independence, or international organizations, or whatever, in the kinds of in-country coordinating sessions that Peter McPherson talked about.

I have the feeling that we have been grudging in our participation in those forums; that we could be much more assertive, much more positive about the policies that we wish to pursue, and much more effective. But, in order to do that, we have to exhibit a clear, long-term commitment, which is very difficult for us to do politically.

Mr. **Feulner**. But it is hard to exhibit that commitment if we do not have a clear policy that people are able to agree upon.

Mr. **Bennet**. And if you do not, I would say to my good colleague that, in addition to that, it is very hard to expect people to agree to support those institutions politically. It is a political liability not to have a coherent policy.

Senator **Kassebaum**. Let me go back to the inducement fund that you were speaking of, Mr. Feulner, because I gather you think this might be some answer, to the problem of policy reform. Were you saying that you thought it should be an entirely separate thing? Were you implying that AID should be divided into political security and development security pieces?

Mr. **Feulner**. My suggestion on SRIF, which is kind of in the very early stages of development in my own mind, is that it should be a discreet amount, an absolute dollar or percentage, within the

ESF account, within AID. It should be enough that it is able to be administered on a practical, bilateral basis, so it can be effective in relatively modest targeted amounts, but with the objective of obtaining specific internal policy changes.

Senator **Kassebaum**. It has been suggested that funds, such as ESF, that are used now to repay loans be recycled into a pot, so to speak, that could be used for development purposes in a country.

It seems to me that this has some merit. Rather than just coming back to pay off an interest, funds would be put toward something that could have some constructive development purpose.

Mr. **Feulner**. Within the same country?

Senator **Kassebaum**. Yes; within the same country. At least I think it should be that. I am just exploring this with you.

Could you try such a fund as an experiment? For instance, could you take privatization of agricultural selling, whether by a cooperative or a state run agency, as a sample project? Without making it too demanding and too broad, could you try it for a while to see if it will work?

Perhaps we could do this slowly with some examples and make it successful. I think it is difficult when we are continually changing things. Directors of AID do not have a long time in office. Committees seem to go on and on but personnel and policy concepts then begin to change.

Perhaps we could build on a framework that has some durability—a more focused concept. Maybe this is part of the policy concept you are speaking of. But I do not know how we could insulate it from the changes that seem to occur every couple of years.

Mr. **Bennet**. I guess the question is whether it is a substitute for the policy concept because the positive purpose would be to achieve a degree of predictability about the level of ongoing U.S. assistance country by country.

I think it is a very interesting idea that is well worth trying. It could be done in a few selected countries, where the development outlook seems to make it most appropriate.

I would point out that there is a partial precedent in the use of Public Law 480 payments. I am not sure how that program is working now, but at one time local currencies were used in partial payment for the Public Law 480 food. I think it would be well worth looking at those precedents.

In India, there were a very large number of ruppees. We used a lot of them very effectively in agreement and cooperation with the Indian Government. But I do not know what the final outcome on that was.

Senator **Kassebaum**. That is true.

You mentioned Public Law 480. I think Nigeria is a good case, where so much Public Law 480 grain was requested to meet the demands of a lot of the Nigerians who had come in from the countryside to Lagos. As a result, we really skewed agriculture policy there. Thus we did not do Nigeria a real favor in the long run by providing free grain. The problem in how to keep the system in balance. That is not easy to do when a country is facing an election. This was several years back.

Mr. **Feulner**. And the votes were in the city and not out among the small producers in the countryside.

Senator **Kassebaum**. That's right.

Mr. **Feulner**. Like Doug, I think your idea of a possible rollover of some of these ESF funds to use in pilot projects in certain countries might be a very worthwhile pilot undertaking. You would know better than I the arcane intricacies of the congressional budget process and what is supposed to happen to those funds when they come back to the U.S. Treasury—whether it is easier to keep those in-country, as opposed to going out and getting a new appropriation.

But, I think the idea of pilot projects like that would be a very appealing one.

Senator **Kassebaum**. Let me close on the question of donor coordination and the role of the World Bank.

As I said earlier in the questioning, this is something we have talked about a lot. You mentioned it, too, Mr. Bennet.

Can we really do it? Is the moment right for the World Bank to step forward? Is it time, as was suggested by Mr. McPherson, to not meet annually to talk in the broad concepts, but to begin to work at the level of individual countries or regions, with the World Bank acting as the catalyst for coordination?

Do either of you have any thoughts on this?

Mr. **Bennet**. I think that there is a great opportunity at the World Bank. In general, because functioning, effective international organizations are so scarce these days, I think we ought to make a special effort to take advantage of the opportunity.

As a practical matter, my experience with incountry coordination was that it depended heavily on the personality and the force of the personality of the people involved. Sometimes you have a UNDP representative who would be terrific and who would have the confidence of the host government and so forth, who would turn out to be the best coordinator. Sometimes it would be a World Bank person; sometimes it would be an AID mission director.

So, I am not sure, in the field, that there is a universal prescription that is right, except that there should be intense efforts in the field to coordinate.

Here, in Washington, in terms of coordinating U.S. activities, it probably is not appropriate for the World Bank per se to take the lead because it is a multinational organization and we are just a part of it.

On the other hand, I think that we ought to be in much closer dialog with them about policy objectives, ours and theirs. We could learn something and they could learn from us.

I think our presence in the World Bank should be very strong at all levels. By this I mean people who have a clear mandate, who are regarded as important in our own Government, and that we should stand behind them.

The IMF, I think partly because its business is sufficiently arcane that it is exempt from political oversight because nobody can understand what they are doing anyway—that is a slight overstatement—has been very effective. I think they may have pushed a little hard in some places, but I think that is another instrument that can function very much in the interests of global development—not to mention the interests of not just the developing countries but all countries in the world economy.

I will conclude my answer with this. I was Administrator of AID during the experiment with IDCA, the International Development Cooperation Agency, and that was an effort to overcome what was perceived to be a coordination problem with an administrative solution. It did not work because it was not an administrative problem. It was an absence of policy type problem.

So I think we have to be very careful as we look for mechanisms to achieve coordination, that we do not spin our wheels with institutional solutions when we actually have a policy problem instead.

Senator KASSEBAUM. Let me follow up for just a moment. You said that it did not work because of a lack of a policy concept.

Mr. BENNET. We were operating with a lot of different policies, all of which had merit, but we did not have the luxury of a long-term commitment to development. To take an example, a very specific example, we put a lot of emphasis on human rights in Third World countries. The human rights policy had merit, great merit. It is something that in my opinion will turn out to be one of the landmarks of the Carter administration.

I have had people come up to me today—this experience has literally happened to me about eight times—people of my age who say that I would still be in jail in country X if it had not been for the U.S. human rights policy. These are people who are leaders, people who you do not want in jail if you are interested in development.

So, what I am saying is not at all in criticism of that policy. But what was missing was sensitive and flexible application of that policy in the context of a more general policy about U.S. relations with the Third World.

The result was that a very large number of people frequently sat down together in the State Department and spent hours considering whether to vote yea or nay on a World Bank loan because of the specific behavior of a specific country in the human rights area.

There simply had to be a better way to coordinate that activity.

I think the policy, while it was sound, was somehow not complete, and it was executed with insufficient flexibility.

Senator KASSEBAUM. Did IDCA operate just internally, or was it also coordinated with other western countries?

Mr. BENNET. The theory was that it was to coordinate all agencies responsible for U.S. economic development activities, with some notable exceptions. Specifically, it was to coordinate AID, Agriculture, because of Public Law 480, and Treasury, because Treasury oversaw the representation in the IMF and the World Bank.

It did not include, if I am not mistaken, any oversight or coordination of U.S. activities in the United Nations and the UNDP would be an obvious element. I believe it had no responsibility directly for trade.

Senator KASSEBAUM. Mr. Feulner.

Mr. FEULNER. I would propose, Madam Chairwoman, that with the emerging acceptance of the so-called Baker plan last year at the IMF and World Bank meetings, perhaps we have a broad outline of a policy that has now been agreed upon by the major contributors to multilateral organizations. My presumption is that that plan, in its broad terms, was appropriately vetted within the administration either at the National Security Council or the Senior Economic Group so that, presumably, Secretary Shultz and Peter McPherson and others are on board, as well.

So I think now, particularly with Mr. Conable coming in as the new President of the World Bank with his acknowledged political acumen in town, and with a new replenishment due, this might be a very good time for a newly coordinated and more effectively and comprehensively integrated approach, at least at this level.

I agree with Doug that it would be inappropriate for the United States to be perceived as coming out too heavily on the World Bank. We remain, of course, the largest single contributor to the Bank. But we cannot play up this fact that too often or too hard for fear of discouraging some of the contributors.

But I think, over the next 4 or 5 months, there will be an opportunity to move in a direction that is very positive.

My colleagues accuse me of being the perennial optimist, and I suppose that is true. But I am rather excited about where we could be going if everyone comes together and agrees on a policy that promotes economic growth.

Senator **Kassebaum**. Do either of you have any further comments?

[No response.]

Senator **Kassebaum**. I greatly appreciate your being here. This it is, I think, a very important subject. As I have said, it can be a little tedious at times, because I think that many of these are recurring questions that people have talked about for a long time. I hope that we can stick with this process long enough to develop some useful recommendations and implement some of them.

I very much appreciate your input into helping us with that.

Thank you.

Mr. **Bennet**. Thank you, Senator.

Mr. **Feulner**. Thank you, Madam Chairwoman.

Senator **Kassebaum**. That concludes the hearing this morning.

[Whereupon, at 11:32 a.m., the hearing was adjourned to reconvene at 9:40 a.m. on Tuesday, April 22, 1986.]

AID OVERSIGHT

TUESDAY, APRIL 22, 1986

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met at 9:40 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Nancy L. Kassebaum presiding.

Present: Senators Kassebaum, Murkowski, Trible, Evans, and Cranston.

Senator KASSEBAUM. The hearing will please come to order.

It is a pleasure to welcome the first panel this morning, consisting of Mr. Jay Morris, Deputy Administrator, Agency for International Development; Mr. Ray Love, Deputy Assistant Administrator for Africa, Agency for International Development; and Mr. Tom Rollis, Assistant Administrator for Management, Agency for International Development.

Would you like to go first Mr. Morris.

STATEMENT OF JAY MORRIS, DEPUTY ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT, ACCOMPANIED BY AIN H. KIVIMAE, DEPUTY ASSISTANT TO THE ADMINISTRATOR FOR MANAGEMENT, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. MORRIS. Thank you, Madam Chairman.

It is a pleasure for me to be here today and to have the opportunity to discuss with the committee the hallmarks of AID's program design and implementation systems, as well as the overall management reforms that the agency has launched in recent years.

To begin, I would like to discuss the process by which AID selects and manages its project activities.

I would characterize it as a rigorous discipline and a dynamic one.

It is true that it has been characterized in the past as excessively detailed and time-consuming, and although no doubt further improvements can be made, and we would welcome any pertinent suggestions, the truth of the matter is that it is now a relatively tightly focused series of interrelated analyses and activities that are more prudent than ponderous, and usually more successful than not.

We should begin, I think, with the blueprint for development, as we call it, which is the Agency's first ever long-term strategic plan. It identifies the key development problems to be focused on by the Agency and establishes our medium and long-term global objectives.

This effort was launched by Administrator McPherson in an attempt to identify those key development problems common to the countries we assist and to identify the solutions to which the United States could make sufficient contributions.

There are five key development problems that make up the focus of our Agency blueprint for development. Our objectives in dealing with these problems are:

One, fostering economic growth;

Two, the alleviation of hunger;

Three, a reduction in infant mortality and mortality in the population as a whole;

Four, a reduction in illiteracy and provisions for minimally adequate education; and, finally,

Five, wide and easy access to a full range of acceptable voluntary family planning services.

We seek to implement our activities focused on these problems around four pillars, as we call them, or areas of activity—policy dialog; institutional development and training; research, development, and transfer of appropriate technology; and, fourth, fostering reliance on the private sector and market forces as the principal engine for growth.

Each of these four areas of activity has been elaborated in 22 sectoral policy papers on such subjects as agriculture, population, energy, environment, natural resources, and health.

Now, within the guidance of these policy papers, those four areas of activity and our strategic plan, we use a number of tools to identify which projects we wish to initiate and pursue. The first of these is the country development strategy statement, or CDSS.

This is a rolling plan with a 5-year focus. It sets forth and justifies a specific strategy for that particular country, with targeted objectives. It also sets forth the resources necessary to achieve those objectives.

To alleviate unnecessary paperwork at this stage, we implemented a practice of updating the CDSS once every 3 years instead of every year as had previously been the case, and holding the length to 60 pages. Thus, at one stroke, at this stage of our project initiation and design process we eliminated two-thirds of the paperwork previously involved.

The next step after the country strategy is to focus on specific development problems and, in each case, to define those aspects on which we wish to focus through a project.

The conclusions of this initial project phase are set forth in a project identification document, or PID, which is the next step on the way toward inaugurating a project. The basic purpose of the PID is to establish goals and objectives and to ensure that the necessary personnel and resources are allocated to carry them out.

When we first reviewed this part of our project process, we discovered PID's running in excess of 100 pages being reviewed in Washington by meetings of upwards of 50 people; and, every PID coming in from the field had to be reviewed in Washington.

We instituted some changes and many of these documents at this stage are now developed and approved in the field without Washington review. This is part of the decentralization and delegations of authority that I think the Administrator touched on yesterday.

Only those PID's with particular sensitivity or complexity are reviewed in Washington.

As a result of this reform, there was a drop last year of 40 percent in the number of PID's sent to Washington and reviewed here. In addition, PID's are now averaging between 15 and 20 pages in length, instead of the previous 75 or 100 pages.

Now, when the PID has been approved, either in the field or in Washington, we go to the next step, which is the development of a project paper. This is a much more elaborate definition of the program or project that we anticipate undertaking, and sets forth in detail the various items that are to be negotiated and implemented.

Here, too, we have moved to cut the length and complexity of the process. Now these documents are held to 60 pages in length, the average processing time in Washington for reviewing them has decreased over 35 percent in the last year alone, and more of them now are being reviewed in the field directly.

In order to control the implementation of projects that have evolved through the three documents I mentioned, we have launched a new MBO exercise called an action plan. Through this document, the missions come in each year and lay out what they intend to implement that year, building on the strategy statements and the policy papers that were developed earlier.

Every year we look at what they intend to implement and we monitor those guideposts as a means for evaluating their performance.

Now, as integrated as this system is, as lean as it is in terms of staff intensity and paper, there are still problems in the field which complicate it for us.

One is the lack of adequate data. In all too many of these countries even basic census data is lacking, let alone such data as infant mortality, user attitudes to contraception, reasons for dropout or repeater rates in school, et cetera. This makes the design of projects sometimes complicated, and we have to just go on the best information we have available.

In other cases, we do not have the adequate technology we need to really solve the problem, such as an adequate malaria vaccine, and we can only treat the causes of the problem until our central research programs have finally come up with a cure.

Of course, we also have instability. It is just a way of life. Natural disasters, elections, political coups, all sorts of things, create instability, which complicates an orderly management of problem solving.

Lastly, donor coordination is often difficult. I believe that was touched on yesterday, as are the difficulties caused sometimes by special constituency earmarks, functional accounts, and other impediments.

Once the project is approved, however, we feel we have made significant progress in beginning implementation. From the time a PID, the project identification document, is approved until a project begins is now typically 300 days. Several years ago it used to be 2 years.

We have done all of this in the face of further reductions in staff and, we like to think, with improvements in our overall management and the improvements I just mentioned in project selection and design.

AID has gone through a 72-percent reduction in its work force in the last 18 years, 20 percent since 1979 alone. We did this at a time when our budget rose from $2 billion in 1968, to over $7 billion today.

Perhaps the most important reform that was made in management generally was in the decentralization and delegation that the Administrator spoke about yesterday. So I will not elaborate on that.

But I would like to touch on just a couple of final points, if I may, about our reformation of the management process in general.

One of these is extension of tours of duty. We are now rigorously applying the standard of two tours, or a full 4 years of duty, at overseas posts for our Foreign Service officers. This is designed to insure more continuity of management and more accountability for results.

In 1980, the average tour of duty was 30 months; it is now 39 months. As for the Senior Foreign Service managers, the ones who are actually responsible for administering these programs, the average tour of duty in 1981 was 29 months; today it is nearly 47 months.

I mentioned the reforms in the programming process. We made other changes during the reduction of 250 positions last year in Washington. The Near East and Asia bureaus were combined in order to eliminate senior personnel, duplication, and overhead. We also merged the Offices of Contract Management and of Commodity Management, which used to be two separate offices and two separate functions. This separation caused a lot of problems in small missions, where they might only have one or two officers and that would necessitate their waiting until the "circuit rider" came around if they wanted to do a commodity procurement or a contract depending on which specialty was not represented at the mission.

Now these offices have been combined, supervisory levels that were duplicative eliminated and, in addition to the cross-training that we are doing in both commodity management and contract management, we are training these officers, as well as all new recruits that come into that office, in mission administration and management. In this way the new contracts, commodities, and management professionals will truly be "jacks of all trades," and will give small- and medium-sized missions the technical skills they lacked or only partly had in the past.

To better approve the resolution of this decentralized form of management, we have increased the number of contract officers in the field, from 25 to 52, and we are planning on hiring more. This is despite the general staff reductions of over 1,000 in the last 5 years.

We are only going to hire 83 more individuals in the next 18 months, assuming there are no further cuts in our operating expenses. Twelve of those are going to be contract officers, and another 12 are going to be administrative officers, as we continue to focus on making the implementation process move faster.

In host country contracting, which is an area in which there has been some criticism of AID's implementation, I think we made a dramatic step in the fall of 1983. At that time, we changed our policy from a bias in favor of host country contracting, to one that now requires host country contracts to be justified as a positive good, rather than automatically assuming it is. As a result, there has been a decline in the amount of host country contracting; this is offset by the direct contracting we are doing with the increased number of contract officers in the field.

Another thing we have done is further integrate AID programs with the Peace Corps, in order to make better use of American personnel overseas. We now have 125 joint projects with the Peace Corps. Over 1,400 Peace Corps volunteers are working on AID projects right now, and we expect that number to grow in the years ahead.

AID was one of the first agencies to implement the review of internal controls required by OMB. To date, we have over 300 internal control weaknesses identified and corrected in just the last 2 years.

We are reducing our participation in the foreign affairs administrative support system, and will save another $2.5 million in that way.

Lastly, I would like to talk about our management training, something in which I have been very involved.

The administrator launched a focus on implementation as far back as 1981, and we redesigned a course to train AID officers on how to implement more effectively our projects. To date, over 1,200 officers have gone through that course.

We have also launched a supervisory course on personnel management, including employee evaluation and motivation, which has been a weakness in our system.

We have instituted a mid-level manager's course, and, most recently, we have instituted a senior manager's course, in which I myself participated for 2 days.

From now on, all AID officers who are going to be office directors or deputy mission directors or above will have to go through that course.

I could go on and on about: modularizing office space, automating work stations, reducting clerical staff, improving travel, a $450,000 saving last year alone in our phone system, even improving our mail delivery system. As an aside on this letter, I once sent a letter to DOT when I first came to office. As you know, that is on 7th Street, and we are on 21st Street, and it took 11 days to get there.

Finally, in the de-ob/re-ob area, on which I think the administrator touched yesterday, over $700 million has been deobligated and either turned back to the Treasury or reobligated in the last five years.

These are just some of the things that we have done to try to improve the flexibility and the focus of the way in which we choose, design, implement, and evaluate our projects and provide our administrative support to this basic activity.

Thank you very much.

Senator KASSEBAUM. Thank you, Mr. Morris.

Mr. Love.

STATEMENT OF RAY LOVE, DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. **Love**. Thank you, Madam Chairman.

Rather than read a statement, I would like to pick up on some of the points that were discussed in yesterday's hearing and provide some additional background information to the committee for the record.

Senator **Trible**. Mr. Love, would you please speak a little more directly into your microphone.

Mr. **Love**. Yesterday the witness from the Heritage Foundation suggested that we consider using economic support funds in a more flexible manner in support of policy reform as a new way of making the ESF more developmentally focused.

As you know, Africa, in particular, has been facing up to the need for policy reform for a number of years. Our belief is that the Africans and the donors must address the basic policy issues particularly the key issue of public-private sector interface and the excessive public sector concentration in Africa without reform we would have considerable difficulties in achieving targeted objectives through development projects.

However, we did initiate in fiscal year 1985 a new African Economic Policy Reform Program of $75 million, which basically was designed much along the lines that were discussed yesterday in The Heritage Foundation presentation.

The fiscal year 1985 program included a $75 million ESF package, which was available to be provided in cash grants, commodity import programs, sector assistance, or some combination thereof, to countries which were prepared to undertake a major policy reform. This assistance is not preprogrammed by country. In other words, it is made available to those countries that prepared to propose reform programs for a given fiscal year.

Five programs were negotiated last year, one each in Mali, Zambia, Malawi, Rwanda, and Mauritius.

Each of these included a privatization component calling for reforms within the governmental apparatus which would increase private sector participation, decrease the size of the public sector, and improve the environment for private sector investment. They also encompassed some of the tax reform issues that were discussed yesterday. One includes increasing revenue, not necessarily through increasing tax rates per se, but through increasing revenue collections and, in some cases, actually reducing tax rates.

We are now moving into phase II of this program, although with a somewhat lower level of assistance. This is due to the reduction in ESF levels, as well as the degree to which ESF was earmarked for areas other than Africa.

Yesterday you raised some concerns about agriculture research, specifically the problems of adapting and transferring technology into Africa and whether new research is in fact required in Africa.

Last year we finished a new plan for supporting Agriculture Research in Africa based on a year's effort in collaboration with outside consultants, the World Bank, and international research centers our plan refocusses and streamlines our priorities for research within Africa to enhance and increase the transfer of technology into Africa from international centers and from other regions, while recognizing our experience that research on the ground in Africa is required if we are to attain some of the breakthroughs in agricultural production in Africa that we have achieved in other parts of the world.

This plan was were made available to Congress in the past, but I have brought another copy today in case you did not get a chance to see it before.

Finally, I would like to provide for the record "The Evolution of Assistance to Africa: 1962–85," a paper that we prepared within the last 2 weeks to address the concern that we within the Agency, as well as outside observers of Africa, have had—that we have been putting money into Africa on a sustained basis in large amounts for a long time, and we have not seen results that are commensurate with the investment.

One of the things the paper shows is that our record of assistance to Africa has been quite erratic. Our level of assistance has been much lower, obviously, than it has been to other parts of the world. But it has also been on a start-and-stop basis because of political difficulties and problems such as Idi Amin's arrival in Uganda. In fact, we have broken off aid relations with the majority of African countries at some point during the last 20 years, in some cases more than once.

In addition, we have had substantial changes in our major program focus, from human and physical infrastructure in the sixties to basic human needs in the seventies, and now in the 1980s to dealing more with macroeconomic problems.

In some cases these continual changes have caused us to stray from some of the basic development issues in Africa such as agriculture research, manpower development, and development of human, institutional, and physical infrastructure.

In addition, the bulk of our assistance, about 37 percent, has come within the last 7 or 8 years, and a large percentage of the aid has been in the form of food.

So, while we have been in Africa for a long time, we do not have the same record of sustained concentration of assistance in the continent that we have had in other parts of the world. We think this has contributed, along with the process of political evolution that has taken place in Africa since independence, to the fact that Africa is still far behind the other regions in development.

I would like to introduce this paper into the record because it is a beginning attempt to broadly analyze the effects of our assistance since independence.

Finally, I want to comment on the many negative assessments that are made about what is happening in Africa. We certainly have been going through one of the worst droughts in the history of the continent. However, as I think you know, last year the rains in Africa were quite good. The most recent food production figures from the FAO show an increase in food production in the continent of over 14 million tons between 1984 and 1985. That brought cereal production in Africa up to 54.3 million tons, which is at the level of what FAO estimates is required in terms of the coarse grain cereals, for example, sorghum, millet, and maize. In fact, the continent overall had a surplus in these coarse grains.

Now, this production was not necessarily located in the right countries, or as in Sudan, which had a surplus of sorghum, it was located in the wrong part of the country.

Nevertheless as good weather comes back we are beginning to see some of our research and policy reform efforts show results through increased production.

Unfortunately, there is a growing demand in the urban areas for wheat and rice, which are cereals that are not necessarily ideally suited for the soil and water conditions in Africa.

We must begin to recognize that we are facing some real issues in terms of marketing in the agriculture sector and we must try to find ways to strengthen the rural—urban food linkages in African agriculture. We must increase demand for food that Africa can produce and not those it must import.

I do not mean to imply by this that we do not need to continue to work on the production end of the equation. We do. We have to stay with agricultural research and the agricultural institution building over the long run.

However, we are already facing very serious surplus problems in certain parts of Africa and within individual countries which we will have to address fairly soon if we are to avoid building disincentives into that continent that would undercut our efforts to support attainment of self-sufficiency in food production.

I do want to emphasize that production, today, has reached some very favorable levels throughout the continent. This includes the countries of the Sahel, which in many cases are close to self-sufficiency or have a surplus in the coarse grains, although this is somewhat regated by their major import requirements for rice and wheat.

Overall, though, agricultural production in Africa is undergoing a very positive development. While clearly a large part of it is due to the good weather, it also reflects the favorable impact of the policy reforms and agriculture research we have supported.

Thank you.

[The documents referred to by Mr. Love appears in the appendix.]

Senator KASSEBAUM. Thank you, Mr. Love.

First, I would like to introduce Mr. Aim Kivimae, who is deputy to Mr. Rollis. My apologies for announcing earlier that Mr. Rollis was here.

Mr. Morris, when you talked about the project identification document, I would like to know how that fits into policy dialog, and how does policy dialog work?

Is that where it all starts?

Mr. MORRIS. Yes, in the sense that we would not want to undertake projects that would be undercut by inimical policies, that would make them unworkable or ineffective.

Policy dialog is normally conducted on a macrolevel between the head of the mission or by Washington-based officials, such as Mr. Love, Mr. Edelman, Mr. McPherson, or myself, with the appropriate officials of the host government. This dialog analyzes an issue such as food pricing, marketing restrictions, exchange rates, et cetera, and is quite often accompanied by sectoral assistance rather than projectized assistance. Sometimes—in fact, quite often—sectoral assistance is in the form of cash grants or a commodity import program.

The PID, the project identification document, is a much more narrowly focused entity, looking at one individual project which might flow from an agreement on a policy change, such as, the host government's willingness to make changes in agricultural pricing. We might be doing a project to build a farm-to-market road, or to introduce a new variety of sorghum or wheat, or establishing new irrigation techniques in order to make agricultural production viable. But, if the prices to producers were held down, there is no reason to assume that increases in production would follow, and we might not engage in that particular activity.

So, one precedes the other.

Senator **Kassebaum**. Is the ambassador involved in this policy dialog?

Mr. **Morris**. Oh, absolutely.

Senator **Kassebaum**. Is there any host country input, as far as the host country is concerned?

Mr. **Morris**. Oh, absolutely.

The discussion is really between the AID program and the host country government. It is the host country government that ultimately makes the decision on whether or not it wishes to make any changes in its policy. Naturally, any discussions of that nature are fully coordinated with our diplomatic mission there because of their sensitive nature.

It is a country team effort, led with AID input.

Senator **Kassebaum**. You mentioned the workforce reduction and yet the operating expenses have been increased by 39 percent in the last 4 years, while the direct workforce has been decreased.

What is the justification for the apparent discrepancy between those trends and why one increased and the other decreased?

Mr. **Morris**. Well, in constant dollars, there was actually a 25 percent decrease in operating expenses. Allowing for inflation, U.S. salaries increased from 1981 to 1985—these are mandated increases in Foreign Service and Civil Service salaries—25 percent; and overseas inflation, which naturally is a factor in a lot of our operating expenses, averaged a worldwide increase of about 11 percent a year, or 44 percent for the period.

So, once you adjust for inflation, the operating expenses did not increase; they actually declined, as you would expect, with a reduction in the workforce of that size.

Senator **Kassebaum**. When you speak of workforce, were you referring to direct hires?

Mr. **Morris**. That's right.

Senator **Kassebaum**. And yet you have increased contract work?

Mr. **Morris**. Yes. But a lot of that is not funded out of operating expenses. Some of it is, where it performs administrative services. But a lot of it is funded out of program moneys, where the contractors are performing a specific development task, such as an agricultural research program. They may be contractors doing the work, but they are paid out of the project funds.

Senator **Kassebaum**. Isn't this a significant shift from the way it once was, when you had a large number of direct hires who were part of AID, who were the ones who really implemented the programs and took care of the follow-through, whereas how much of this is done by contractors?

Mr. **Morris**. That is quite true. It was necessitated by the cuts in operating expenses, which made it impossible to maintain a direct hire workforce of that size.

So, to get the work done, the shift was made to use the program moneys and to use contract intermediaries.

Senator **Kassebaum**. It's a bit like "robbing Peter to pay Paul."

Mr. **Morris**. Yes, ma'am.

Senator **Kassebaum**. It is my understanding that the British and West German aid agencies have only 8 percent and 3 percent, respectively, of their employees stationed overseas, while AID has 42 percent of its direct hire workforce overseas.

Have you studied the experience of either of our counterparts there? Given the increased threats to our personnel abroad, has there been any discussion about shifting more of our direct hire workforce back home?

Mr. **Morris**. Yes—to all of those.

The percentage of our workforce overseas has probably risen because most of the reductions that we have instituted were in Washington.

We have studied the experience of other donors, and, frankly, believe it is AID's unique advantage to have a sizable presence overseas. It enables us to have much more intimate knowledge of the country's economy, culture, and governmental workings; much more intimate relationships with policy-makers and leaders in the private sector, academia, and other areas of a society; and, to more directly manage our projects and monitor the outcomes, as Congress would expect.

It is also true, as you concluded in your questions, that, given the increased threat of terrorism, we may have to reevaluate our ability to continue to do this. We are, in fact, looking at the situation in high threat posts. You may recall recently that Sudan was evacuated in part, and that included some AID employees.

Senator **Kassebaum**. Have managers increased in number?

Mr. **Morris**. The managers?

Senator **Kassebaum**. I gather from what you said of the management program that this was a new focus. I wondered, somewhat, what all the managers do.

Mr. **Morris**. Actually, the managers, as ranks, have not increased. But what has happened is that the responsibilities of the average AID officers at all levels have increased because they are now managing many more contract activities.

AID, historically, never placed much emphasis on management as a science or an art form. It was comprised, and still is, primarily of technical specialists—economists, botanists, foresters, agronomists, fisheries experts, et cetera—with a high degree of training in their technical areas and almost no training in the art of management.

But, as they advanced over the years through seniority and through good project design work, their responsibilities to supervise others—direct hire, Foreign Service nationals, and/or contractors—increased, but no attention was paid to training them to exercise that area of their responsibilities as well as possible.

That is why we instituted the management training courses, in order to make the officers who remained more effective at doing what they had to do beyond their technical specialties.

Senator KASSEBAUM. How much responsibility does the contracting group have for the management of the particular project they have contracted for?

Mr. MORRIS. Are you speaking of our direct hire contract officers or those who are out in the field, working on contract?

Senator KASSEBAUM. Those who are out in the field.

Mr. MORRIS. They obviously have significant responsibilities as defined in the contracts. However, they must be supervised by an American official.

We cannot delegate to the point of dereliction, and certain responsibilities, such as obligating funds, must remain in Agency hands.

Senator KASSEBAUM. Before AID reduced its Washington review staff, many felt that the process relied too much on the committees of experts, without anyone being held directly responsible.

How has that changed?

Mr. MORRIS. Well, in part through the action plans, which, as I mentioned, was an MBO exercise that we instituted about a year ago. We are going through an evolution now as to exactly what elements they should contain. We had a period where we let 100 flowers bloom and let each Bureau experiment with what it felt were the necessary guidelines it wished to institute.

The Africa Bureau has been particularly successful, I think, at boiling the process down to its essentials. The action plan sets forth what is to be the output for the year for a given unit. Then those managers are measured by their accomplishments against the expected outputs.

We think that, while there are still committees of technical experts to contribute their expertise to the design of a project, we are making the line manager more singularly accountable for his outputs by what is in his action plan.

In addition, and I do not want to belabor some of our internal workings, one of the things we are about to institute is a new employee evaluation form. The Government does thrive on forms, and we have an EER and a PER—one for the Foreign Service and one for the civil service. We are changing the Foreign Service employee evaluation form to incorporate more MBO elements, where the employee will set forth what his individual outputs and accomplishments are to be, by quarter, for the year. Then they are going to be rated against that by their supervisors and by the reviewers.

If we can get this successfully negotiated with the Foreign Service union, I think it will be a further step in carrying this MBO process below the most senior line managers, who design the action plans, and down into every operating level.

Senator KASSEBAUM. Well, it sounds a little tedious to me.

Mr. **Morris**. Madam Chairman, believe me, it is tedious in the extreme. It has taken 2 years of meetings of experts and consultants to devise this form. But I think it is an improvement and worth the effort.

Senator **Kassebaum**. I would like to see one of those forms.

Mr. **Morris**. I would be delighted to supply it to you.

[The information referred to appears in the appendix.]

Senator **Kassebaum**. Mr. Love, I would like to ask you about the economic policy initiative. As you say, that initiative relates directly to our discussion yesterday of instruments for policy reform.

How successful do you think it has been?

It is my understanding that AID recommended five countries in which it felt that the EPI could be particularly effective, but that State overruled and selected five others.

Is this an indication of a problem of coordination with state, as to what criteria are to be used or what role political considerations are to play?

Mr. **Love**. We did not have a real disagreement with State Department on the five programs that were approved last year.

Clearly, State looks at the political considerations along with the economics. I think we have been fairly successful to date in keeping the economic policy initiative tied to countries that are prepared to undergo reform. Otherwise, we would not have seen programs for smaller countries like Rwanda or Mauritius.

We also consciously elected to omit from eligibility the major ESF politically supported programs—basically Sudan, Liberia, and Somalia—in order to avoid the appearance that we were making these funds available in response to political considerations.

Last year the selection process worked very well. Each year, we hold joint reviews with State. They have their legitimate interests in terms of political priorities, but so far I think we have all been successful in selecting countries that have, in fact, to produce meaningful economic reform.

Senator **Kassebaum**. Does this change every year, or is there continuity in the five countries that were selected last year? Has the program been implemented for a whole year?

Mr. **Love**. The negotiations were completed in the last 2 months of the last fiscal year. They are all in various stages of implementation. They include, in some cases, multiyear disbursements of funds.

It was anticipated that in some countries we might follow on with a second-year program.

For example, in the case of Zambia, where we expect all the disbursements will take place in the next month, there would be an opportunity, if funds were available this year, to do a second program because the reform process there is continuing to work.

The balance of this year's funds will probably go to additional countries, that have not yet participated in the program.

Most of the participants in last year's program have not moved far enough along in the implementation to warrant a second year. Next year, we may be able to do a second-phase program with some of the countries.

Senator **Kassebaum**. Are there any conditions attached to that money, or is it just given to the government based on certain economic performance?

Mr. **Love**. Conditions are attached to all five programs.

Clearly, in making the decisions to progress even to the PID equivalent on an AEPRP, we had to judge that the overall environment for reform was satisfactory. You don't just start from scratch with a major policy reform program. You have to have some tangible indication that the government is in fact embarked on a reform process. This type of reform is occurring more and more frequently throughout Africa.

Senator **Kassebaum**. Let's take Zambia, for instance. For what are they using the moneys there?

In the case of Zambia, we had been working with them through our Public Law 480 programs and through use of our existing ESF programs to support reforms in the agriculture sector. This process included encouraging the government to do away with or minimize their use of subsidies; to increase agricultural support prices, and, particularly, to pull the National Marketing Board partially back out of the marketing operation and open it up to private sector dealers and to cooperatives.

Those were the types of reforms we were encouraging in Zambia. That process is contributing to the fact that this year Zambia may well return to self-sufficiency in production of maize.

But all of the programs have new conditionality attached to them, in addition to a judgment that the countries have shown some willingness and ability to undertake reforms, as part of the initial selection process.

Senator **Kassebaum**. Do you work at all in coordination with the IMF, which I know in the case of Zambia has laid down some very strict requirements?

Mr. **Love**. Yes. Zambia, as you know, has an almost insurmountable debt problem. IMF has been a major actor in the reform process there, as has the World Bank. The World Bank probably has been more effective in trying to effect donor coordination in the reform process in Zambia than in many of the other countries in Africa.

The interchange between the IMF, the Bank, and major bilateral donors in Zambia has been quite good. That has not always been the case in the other countries in Africa.

Senator **Kassebaum**. Let me ask you a bit more about donor coordination.

A 1984 AID report, from the African Mission Directors' Conference in Rwanda, said:

> To say that Africa lacks donor coordination is in at least one sense a misstatement. There exists already more than 20 donor coordination groups dealing with individual country or regional concerns. Unfortunately, many of these mechanisms have proved ineffective, and the coordination engendered often results in the form of lip service to the principle, rather than an effective, on-the-ground, coordination.

Is this situation any different today?

We all talk about donor coordination. Do you have any recommendations to make for how to accomplish this?

Mr. **Love**. I am not sure how many different organizations there are in existence. There may be more than 20 since a wide variety of organizations include donor coordination as one of their elements.

Groups are established to coordinate around specific issues in a given country, around regional development plans, such as the OMVS in Senegal, around national development plans, and around major regional objectives, such as the SADCC operation in Southern Africa or the CILSS in the Sahel.

In the last 3 years in Africa the coordination has improved. The communication and agreement among the donors and with the Africans themselves on what some of the root problems are in Africa has greatly improved. This has led to a much greater recognition and consensus among the donors that the privatization issue that was discussed yesterday is one of the key reforms that must be addressed in Africa.

AID, in its dialog with the other donors bilaterally, as well as in the formal mechanisms, played a major part in that evolving perception.

When you focus on formal coordinating mechanisms, we all view the consultative groups and the World Bank leadership as one of the key mechanisms, particularly outside of the in-country coordinating process itself.

The Bank-sponsored consultative group meetings serves an important forum for the formulation of broad strategies, and coordination of policy and program. They also provide a good forum for IBRD donor and host country interface with IMF.

With regard to in-country coordination, however, I do not think you can draw a clear standard profile of the best way to approach it. The Bank is weaker. It lacks in-country staff, and that lack is one of the weaknesses of the Bank as an institution. Conversely, the larger in-country professional staff is one of AID's most important comparative advantages. As Mr. Bennet suggested yesterday, in a given country it may be a bilateral donor or two bilateral donors that take a predominant coordination lead. It may be a UNDP representative in a given circumstance, or it might be some other formula of donor/host country leadership.

We suffer from the fact that some of the other key bilateral donors for Africa, particularly the Europeans, do not have in-country staff to work on aid coordination. So we find ourselves talking to an Embassy which may or may not get any communication from the home office. As I stressed, AID's decentralized operation greatly facilitates communication with the host country and other resident donors.

So, in-country coordination can be quite varied and complicated.

Senator Kassebaum. How does a country like Japan, for example, handle its foreign aid programs?

Mr. Love. Do you mean in Africa, or generally?

Senator Kassebaum. In Africa.

Mr. Love. First of all, Japan has been increasing its aid to Africa more rapidly than any other bilateral aid donor. So they are now about third in the continent of Africa and may be second fairly soon.

They have been very selective in the countries in which they decide to work.

They have tended to concentrate their assistance more toward commodity transfers, project-type financing, things that in some cases are supportive of some of their own commercial interests.

Senator KASSEBAUM. Pardon me. They do not have what?

Mr. LOVE. They do not have in country aid staff, as such. They work through their Embassies, where they have them.

So they do not engage in the more basic institutional rural development-type programs that some of the other donors do because of the way they run their program. They are becoming an increasingly important donor on the continent, and they have taken a much more active role in some of the donor coordinating groups, of late.

Senator KASSEBAUM. I ask that because I had understood that the Japanese do focus more on selective areas, and do so in a way that enhances their own trade opportunities.

We talked yesterday, as both Mr. Feulner and Mr. Bennet mentioned, about trade as an important element, and privatization.

I wonder if it is worth looking at some different approaches that might assist us more with long-term trade potential than the focus that we have developed through the human needs criteria that was adopted at one point. I don't know if that is still a policy guideline for us in Africa.

I know that various people have also suggested that perhaps we ought to concentrate our resources on one or two countries where we can run a more model operation and see what works and what does not. If such a model operation works well, it could have a certain impact in surrounding countries.

Mr. LOVE. You have hit on three different points.

On the question of concentration in selected countries, we are trying to do that. Given the nature of the continent of Africa and the large number of countries in which we operate, in which the State Department feels we should operate, we have had to through a process of trying to consolidate and focus our assistance in some of the key countries during the last 3 years. The bulk of our assistance goes into 8 to 10 countries.

Because we can operate major programs across the board in all African countries, we divided them into three tiers or categories. Tier one is countries which have major assistance; category two is comprised of middle level countries; and the third is a group of countries that we call the small countries in which we operate are in for various reasons—political, developmental, and humanitarian—but where we cannot run major programs. In some cases we do not feel it is justified even to station AID staff there. In some cases we work through PVO's to run the program and in other cases we have made direct commodity transfers as the Japanese might do.

We have done a lot of experimentation on the small countries. We have had to find ways to economize on our own staff. We cannot afford to uniformly staff the traditional large AID mission, as is done in Asia and in some other parts of the world, in a continent the nature of Africa. But, we do focus on key countries.

We also believe that the Africans are paying a lot of attention to what is happening in other African countries. In the case of Zambia, for example, we have worked with the IMF and the Bank to initiate a successful new system for auction of foreign exchange.

This, in effect, has allowed them to go through a major devaluation and establish a free, convertible exchange.

We have supported this through our regular program, as has the Bank.

Countries like Tanzania which are not yet willing to accept that devaluation as something that must be done are watching the auction system as a potential way of addressing their exchange problem.

The Sudanese have sent a delegation down there to look at this, as have the Somalis.

The Africans are watching each other. They are watching what is working and what is not working. That is one of the factors that is beginning to create this wave of reexamination of the public private sector roles in Africa that was referred to yesterday and earlier today.

Mr. **Morris**. If I may, I would like to add just a couple of points to that.

Senator **Kassebaum**. Yes, please do.

Mr. **Morris**. As it is now, 70 cents of every AID dollar are spent in the United States for American goods and services. We have been working with Treasury and others in the administration to try to convince the other donors that their tied-aid practices may not be in their own best interest, ultimately, as well as in the best interests of the host countries we are all trying to help. This is because many of those projects may not be as economically efficient for the host country investment of money as alternative means might be.

We have a Trade and Development program under the IDCA umbrella. You may be familiar with it.

That budget has increased from $5.4 million in 1981 to around $19 million now. Our request levels were higher.

In addition, Treasury has been proposing, as you may know, a $300 million war chest to try to get the attention of the other donors; if their practices were to continue we would engage in the competition more vigorously. We at AID are engaged at this moment in one tied-aid project in India, which I think will involve some $7 million.

We would, however, prefer to keep those sorts of activities in Treasury, in Exim, and in our Trade and Development Program, rather than in our mainline AID activities, where we think we are getting more developmental impact utilizing the systems that we have now.

But I think you touched on a very key point. If these other donors do not respond to these efforts on the administration's part to reform, more might have to be done on the trade front.

Senator **Kassebaum**. I was really implying that I thought the Japanese had been very astute in the way they have handled their programs, and built up a trade relationship that was proving very beneficial in many instances. That was my understanding and I was curious as to how they started their work initially in various countries and how much they have participated in donor coordination.

Mr. Love, how well did the PVO umbrella project work in Senegal in 1983? Does this model promise broader application, do you think?

Mr. Love. Yes.

As you may know, we have been working very closely with the PVO's for the last 2 years, particularly since the formation of Inter Action, to develop new approaches to working with the PVO's in Africa.

The umbrella or cofinancing project—it is referred to by different names—is a very important model. We have done it now in five countries—Kenya, Somalia, Chad, Senegal, and Zaire. It allows us to channel more resources to the PVO sector, to focus on smaller projects, including assistance to indigenous PVO's, which we think is very important, and to begin to do this in a manner that is achievable within the management constraints that we are facing.

This is a more effective way of working with PVO's. We set up the line of credit between the mission and the host government, and individual PVO's may apply to have individual activities approved and funded.

The one in Senegal, one of our earliest, went through some contracting problems in start-up and is just now moving into the operational stages. The ones in Somalia and Kenya are both in operation now.

We expect it will be about a year before we get any good indications of how they are working on the ground. But we have no reason to believe that they are not going to work quite well.

Senator Kassebaum. Thank you very much.

That concludes all of the questions that I have at this point.

I think this gives us a good background for getting into some of the specifics, and I very much appreciate your testimony.

Mr. Love. Thank you very much.

Mr. Morris. Thank you, Madam Chairman.

Senator Kassebaum. It is a pleasure to welcome our next panel, who are, from my left to right: Dr. David Shear, Director, International Cooperation Department of the American ORT Federation; Dr. James L. Collom, Associate Director for International Programs, Purdue University; and Elliott Morss, Associate Director, Center for Asian Development Studies at Boston University.

It is a great pleasure to welcome all of you.

Dr. Shear, we might start with you because it is my understanding that you have some time constraints, as you are leaving for Africa this afternoon.

So perhaps you would like to leadoff.

STATEMENT OF DAVID SHEAR, CHAIRMAN, INTERACTION COMMITTEE FOR SPECIAL ACTION AND LEGISLATION IN AFRICA

Mr. Shear. Thank you very much, Senator.

Both as the Director of ORT's technical assistance activities here in the United States and in the Third World, and, more specifically, as the chairman of the Interaction Committee for Special Action and Legislation in Africa, I am delighted to be here today.

It is in the latter position that I am really testifying today.

Approximately a year ago, Interaction, representing approximately 110 of the major U.S. private voluntary agencies working in Africa, asked me to chair a working committee in order to look at the past history of assistance efforts in Africa, both with respect to the special role of PVO's, but also in terms of the larger development issues and to see if perhaps this might be an appropriate time, given the high profile of Africa with the U.S. public, to come forward with some recommendations concerning changes in the way in which the U.S. Government and the PVO's themselves do business in Africa.

As a result of that effort, Interaction Committee has come forward with a series of recommendations for changes in the legislation for Africa. It is with respect to those changes and the relationship of those changes to perhaps improving AID program implementation that I would like to speak this morning.

First of all, as one looks over the last 25 years, it is quite remarkable that for the first time there has been formed over the last 2 or 3 years a general consensus as to what are the basic development issues in Africa. These really revolve around the need to increase agricultural production, especially food production, the relationship of that production to the natural resource base, and the actual waning away and destruction of that resource base under the impact of burgeoning population, both human and animal.

We also perceive that a central core of the development constraint in Africa today is the health of the rural population generally. When the rains come, at that time, when the rural populations most need their strength to work in the fields, that is the time when diseases become most rampant. Malarial diseases, diarrheal diseases sap the strength of the rural populations.

We also see that, historically, the donors concentrating in large forms, large mechanization projects, really have ignored, in large measure, the main producer in Africa, and that is the African farm family. In that context, we have also not understood well enough the tremendously important role of women in the African food production system. This is an enormous resource which, while it is over-exploited in terms of women working 18 and 20 hours a day in support of their families and their forms, has been a system which is poorly understood. The importance of women has been little appreciated.

Looking, then, also at the impact on population and health of nutrition and human resource development, we saw that perhaps this might be an appropriate time to come forward with some major recommendations in terms of restructuring United States economic assistance approaches to Africa.

This restructuring, which we are recommending—and I might add that all 109 of these private voluntary agencies are in support of this general outline, representing some 5 to 6 million American citizens—we would like to recommend a much greater concentration of United States economic assistance efforts in Africa, focused in agriculture, on food production, on the farm family; also linking this, as I mentioned before, to environmental rehabilitation, rural health programs, including family planning.

We also see the need for increasing rural employment and increasing income. Here we see the need to look at the very strong, indigenous African private sector as a means of capturing some of the energy emanating from increased production, particularly with respect to agricultural processing.

We also, in addition to seeing the need to get down more to the grass roots level at the project level, see the continuing requirement for this policy discussion and the need for the U.S. Government to play an important role with respect to policy changes.

The legislative proposals which we have put forward also will impact directly upon the nature of U.S. AID activities in the field.

We are recommending, for example, that the planning horizon for Africa be substantially lengthened, to a period of 20 years.

It is not possible, Senator Kassebaum, to really look at river basin development and environmental rehabilitation in periods of 5 or 6 years, which is the conventional timeframe for most assistance projects.

One needs to look at generational programs, building upon the needs and the perceptions of the local people and working with them. This means programs have to also come from the bottom up, as well as be for the grass roots.

We also have perceived, in examining the nature of AID operations over the last decade or 15 years in Africa, that the establishment of separate functional accounts has been a constraint, we believe, to really imaginative and efficient program planning and execution.

It makes it very difficult, for example, to play a river basin program if one has to deal with three or four separate accounts, and those accounts may not necessarily be of the same magnitude over a continuing period of time, therefore denying one the ability to really program a certain quantum of funds in relation to both need and to policy dialog.

We also see the utility, we think, for streamlining the reporting mechanisms established in large measure by the Congress and certainly adhered to assiduously by the AID and its bureaucracy.

The working draft of the legislation which currently exists eliminates a number of these reporting requirements.

We also see not only on the reporting side but in terms of actual execution and implementation the utility for liberalizing U.S. procurement practices.

The Africa of today is very different from the Africa of 25 years ago. In a large number of countries, the number of the items for project implementation, commodities, equipment, and spare parts are available locally, rather than bringing them from the United States, which frequently takes up to a year, in terms of getting them into a project system. We believe that, where possible, these could be purchased locally. It would have the stimulus effect on the local economy, as well as facilitating execution of projects substantially.

We are also urging, as has been already mentioned today, improved donor coordination.

From experience, I know this is not easy. It is also expensive in terms of time and people.

At the same point in time, there are few more frustrating things when one is working in the execution of foreign aid programs than to work with other donors who are ignorant of what we are doing, or perhaps where the Government itself is not fully apprised of what the whole panoply of donors is doing.

Donor efforts, therefore, frequently have counterproductive effects and also are just wasteful.

The intent of our legislative proposal generally is to encourage the AID bureaucracy to be a lot more innovative. We hope that with congressional support these programs can make a major difference in terms of development, and not just be safe.

We think it is only appropriate that much of AID's hesitancy to streamline its procedures, despite some substantial progress made over the last several years, stems from congressional oversight and past congressional criticism. Therefore, we think it is extremely appropriate that new directions from the Congress to AID, permit AID to function more efficiently, more directly in relation to Africa's development needs.

Therefore, in a sense we believe we have come full cycle.

AID has made some substantial attempts to streamline. Many of those attempts in the future, though, are constrained by existing congressional legislation. It is some of these constraints that we have urged be removed.

Thank you very much.

[The prepared statement of Mr. Shear appears in the appendix.]

Senator **Kassebaum**. Thank you very much, Mr. Shear.

Mr. Collom.

STATEMENT OF JAMES L. COLLOM, ASSOCIATE DIRECTOR FOR INTERNATIONAL PROGRAMS IN AGRICULTURE, INTERNATIONAL EDUCATION AND RESEARCH, PURDUE UNIVERSITY

Mr. **Collom**. Thank you, Senator Kassebaum.

It is a pleasure to be here and to represent the university community, which has not only been a major source of contracting expertise to implement AID's Programs overseas, but also has worked with Congress and the agency to create improved ways of carrying out AID's mandate, particularly through the title XII legislation.

We consider this kind of hearing to be a continuation of that long collaboration and are pleased to see this hearing underway.

Our belief is that, to a substantial extent, the degree to which the agency achieves its objectives is determined by three major points: How resources are allocated among alternative uses; how the agency identifies and conceives its projects; and then, how these projects are planned and designed.

While the representatives of the agency here today have indicated some of the improvements which AID has made in its approach and its procedures, there still continue to be difficulties associated with the framework within which the agency carries out its activities. We want to talk a little bit about some of those difficulties, how they impact upon the design of projects particularly, and then talk about some ways in which these things could perhaps be overcome and some opportunities for change.

Several of these have already been mentioned, but I will run through them again.

We concur that AID is inadequately staffed. This has been mentioned before. Of AID's workforce, only 7 percent, 230 people, are professional agriculturalists and have, therefore, the technical ability to deal with a major part of the Agency's portfolio.

Furthermore, a number of these are not working today in agricultural positions. They generally have moved on into higher level administration. So we believe that AID does not have the trained and experienced agricultural professionals available in the field who can analyze the local situation adequately, select high priority projects, and design or supervise, at least, the design and implementation of projects.

Quality of work, therefore, suffers.

I think in the comments made earlier today, it was pointed out that the Agency, with a smaller of staff, has been able to move larger quantities of money. Very little was said about the quality of the project selection and design work. We think this is an issue.

We also have mentioned today the length of tours for AID professionals overseas. While the pattern of tours of 2-year duration is certainly observed in some cases, for many reasons this is not always followed out.

It is not uncommon to encounter over the course of a 5-year project two or three different mission directors, two or three different agriculture development officers, and continuity in projects suffers tremendously. Given the lagtime, even the 300 days described today, in designing projects, it is fairly common before a 5-year project is over to have no one present in the mission who was there at the time the project was identified, conceptualized, and designed. This makes it rather difficult for the mission to maintain the commitment to particular projects when no one is left who knows how it came about.

The CDSS, the country development strategy statements, and the action plans, which were mentioned this morning, do provide some assistance in overcoming this, but the problem remains.

A third issue I would like to address is that the agency does face a problem in attempting to evaluate and reward in the short run staff performance in dealing with long-term problems. Mr. Shear has just mentioned the need for lengthening the perspective in dealing with problems, particularly in the African continent. We would concur that this is a problem and that the agency has real difficulty in evaluating the capacity of the staff to contribute to these long-term programs when those staff are on a maximum of a 4-year tour in country.

Another issue that is related to this is the problem of measuring outputs in development assistance. Measuring accomplishments in institution-building, measuring accomplishments in the long-term kinds of shifts and changes that occur as development proceeds is difficult. The tendency, therefore, has been in many cases to revert to measuring inputs. In other words, the evaluation criteria become how much money have we been able to obligate, how many trainees have been sent off, how many commodities have been imported.

These, in fact, are important issues but simply do not in any way measure the output in terms of development assistance, measuring the economic development growth, improvement of well-being of the farm family, et cetera, that we are trying to achieve.

I simply question whether or not there is adequate incentive for AID staff to really invest heavily in the selection and design of these long-term, high-payoff projects that we know to be essential in order to achieve progress, particularly in places like Africa.

I would look forward also to seeing what this new evaluation form that was mentioned this morning for AID staff looks like and whether or not it addresses this particular issue.

The decentralization of administrative authority in AID has been mentioned this morning as a rather positive feature from AID's perspective. I would question whether or not the impact of decentralization has always been this positive.

The greater delegation of authority to these highly diverse missions which are inadequately staffed with agriculture development professionals raises some issues.

We believe that it has been more difficult for AID-Washington to maintain emphasis on some particular themes or approaches.

Second, the communication and discussion with the field staff on new approaches and implementation of new directions is a more difficult task.

Third, the assignment of greater responsibility and authority to field staff who are already overburdened tends to push the mission programs toward a shorter term perspective and toward much larger projects and, particularly, into large capital transfer activities.

An additional issue has already been mentioned briefly as well, but I want to comment on it. The development assistance activities of AID are clearly heavily impacted by forces outside the Agency and outside of the developing nations, which we are assisting. Both formal and informal congressional actions, State Department policy and objectives, administrations' views on development assistance which shift from time to time, and actions of other donors, all of these things have an enormous impact on the programs of the agency.

It is difficult—I think this was already stated this morning—for the Agency to steer a steady course of investment in high payoff economic development interventions when it feels obliged to continually be responsive to these externalities. Various people feel that the Agency overreacts at times, and sometimes misinterprets the intent of some of these outside influences.

In any case, there is considerable evidence that these outside forces change and sometimes distort the Agency's economic development program. We believe, and I think there is increasing agreement, that the congressional guidance to AID and to the university community, which is embodied in the title XII amendment to the Foreign Assistance Act, has been, in part, abrogated by the influence of some of these externalities.

There are some basic difficulties which occur at the mission level when some of these problems begin to work together to influence the program of the AID mission.

One of the impacts is that of deemphasizing investment in carefully designed long-term projects. We are seeing increasing reliance—and this was stated this morning—on large-scale capital transfers and similar kinds of activity.

It is our judgment that the process of designing long-term projects, particularly complex ones in areas such as institution-building, simply has turned out to be too slow, too demanding of technical knowledge, requires more manpower and particularly more management than missions can effectively provide, and it moves funds too slowly to meet the mission investment targets.

For this reason, if for no other, I think we have seen a massive move to these large-scale capital transfers.

AID personnel have suggested to us at recent title XII seminars that in some of the regional bureaus, perhaps 40 percent of the new obligations next year could be in these large-scale sector grant or loan programs.

I want to expand on that just for a minute because it is an important issue.

The concern is that these large-scale sector grants or loans simply do not result in the kind of development assistance projects which, in Mr. McPherson's statement yesterday, were described as important building blocks of the bilateral assistance program. We have, in a sense, or are continuing to abandon those important building blocks.

The sector grant, sector loan programs, tend to go to balance of payment relief, basic budgetary support, and similar kinds of purposes.

They are quite similar in some cases, at least, to World Bank programs. The question I think that the committee might well look at is whether or not this is a constructive use of AID's mechanisms, AID's capacities, and whether or not this effectively draws on the U.S. comparative advantage in the conduct of development assistance.

Another problem is that we are seeing difficulty in adopting some of the desirable new approaches. Mr. Shear has suggested some improvements which might be made, or some changes which might be made in the development assistance process. Others have been suggested before.

For instance, AID and BIFAD suggested that the collaborative assistance mode of contracting is a desirable approach to achieving improved quality, both in the design process and in implementation of projects. However, the approach has not been utilized widely.

There have been 250 projects with institution-building characteristics in agriculture, rural development and nutrition initiated in the 10 years since title XII began. Only 14 percent of those have used the collaborative assistance mode. BIFAD has suggested that at this time it appears that the use of collaborative assistance is on the decline.

Likewise, the technical support to mission program, which we believe holds real promise of using the capacity of the universities to contribute to the AID project selection and design processes, has also not been implemented nearly as rapidly as both AID and BIFAD anticipated.

One additional concern I would like to mention is the fact that despite our joint expectations, that of Congress, the universities and AID, which was embodied in the title XII amendment, that U.S. universities would find opportunities for greater involvement in our development assistance programs, we now have a sense that we are being excluded from certain AID activities for some unusual reasons.

On the one hand, we are excluded from some because we are not public agencies. On the other, we are excluded from other projects because we are not private agencies.

There are projects which would suggest that title XII universities would be appropriate for implementing them, which go to the USDA and which the universities are unable to compete for because we are not public agencies. The use of private-sector firms, particularly consulting firms, on certain projects has also worked to the exclusion of university participation.

I want to mention just briefly some concerns about the allocation of resources.

At three different levels we believe there are concerns.

Regarding development assistance in general, we are concerned that only 22 percent of the nonmilitary foreign assistance program resources are allocated to bilateral development assistance. This major focus is inadequately supported in our judgment.

Among the functional activities of AID's budget, the percentage of bilateral development assistance resources allocated to agriculture, rural development, and nutrition, section 103, has decreased in the last 2 years by more than 10 percentage points.

I think Mr. Shear made the point that, particularly in Africa, the focus needs to be more strongly oriented toward the agricultural food production, the farm family, the natural resources, much of which comes out of section 103, and we believe more adequate resources need to be allocated to that area.

An additional concern relates to the composition of our development assistance program.

We suspect and believe that resources are not being concentrated in what appear to be the high payoff investments of human capital formation, development of adapted technology through applied research, technology transfer, and the development of the indigenous institutions which are required to provide those services over time.

I think this echoes comments made earlier this morning.

Despite the commitment which AID has made to institution building, beginning, again, in the late 1970's, the proportion of section 103 funds which are allocated to this important activity, institution building, decreased in Africa between the years 1980 and 1985, and remains stable in Latin America and the Near East, and increased only in the activities of the Asia Bureau.

Capital transfers, which we believe are less likely to be applied to the high payoff project areas, continue to make up a significant portion of AID's use of section 103 funds.

I want to move now to comment on some important changes which we believe should be made in the allocation of resources.

The new strategy which has been mentioned today for Africa, which focuses on the institution building for research and education, is a significant example. We are concerned, however, that that new strategy, important as it may be, seems to be quite slow in moving onstream.

Some of the other programs that have been mentioned this morning—we have talked about the economic policy initiative, for instance, which has moved large amounts of funds into five selected African countries in a fairly short period of time—have not been paralleled by the investment of additional money and rapid movement to implement the new strategy for institution building and research and education in Africa. We believe that reallocation of resources to initiate that strategy would be very productive.

A substantially greater proportion of the available funds needs to be directed to these high payoff and carefully targeted opportunities in institution building, applied research, particularly in agriculture extension, and training.

We believe that the land grant colleges and universities could be involved at a much higher level to assist the agency in making effective use of such a larger resource allocation.

There are other opportunities for change which we believe would lead to improvements, both in the allocation of development assistance resources, and in the selection and design of AID projects. Both Congress and the agency have opportunities to reevaluate and reorder the allocation of resources.

Universities themselves could commit and need to commit larger quantities of staff resources to the process of assisting AID.

These issues were carefully described and recommendations made in BIFAD's recommendations to AID on the fiscal 1985 budget.

At this point, 2 years later, it is certainly not clear that the situation has changed much. The overall level of resources has decreased. Perhaps as a result of this, it appears that AID has been unable to implement effectively the recommendations made by BIFAD at that time.

Indeed, we think that the difficulties, some of which have been described here, are continuing to lead the agency in the opposite direction from the recommendations made by BIFAD in regard to that fiscal year 1985 budget.

The university community can help AID address and resolve some of its basic difficulties, and we can do more to enhance the capacity of the agency to invest in well-selected and well-designed projects.

I want to mention five particular areas in which we believe that could occur.

The first of these is in the development of country-specific analytical capacity. The limited number of technically trained staff available to the missions, combined with their tendency toward short tours of duty and high turnover, results in an inadequate base of knowledge with which to carry out the analytical decisions necessary.

We mentioned briefly the issue of policy dialog. A question was raised in regard to that.

I think that where policy dialog starts is in the analysis of the data from the country—the collection of the data, the analysis of the data, and work with that data to point out targets of opportunity. We think this is a weakness in the current system that could be assisted.

Clearly, another opportunity is that of enhancing and improving the process of project design.

I have mentioned already that the collaborative assistance mode is one approach which would provide for improved quality in this area. Under that mode, the contractor selected to carry out the design carries out implementation. We get greater continuity and we get a greater sense of commitment to the quality of implementation at the time of design, which is a quite different issue from the current process of designing projects with pickup design teams under severe time pressure.

An additional concern is the need for greater investment in human resources.

Virtually all AID projects and all AID concerns in virtually all of the countries contain an element of requirement for development of indigenous human resources. We believe that these are some of the highest payoff opportunities in the AID portfolio.

Missions frequently do not have the staff required to provide a coordinated approach to the concerns for the development of human resources. These are handled separately from a project-to-project basis, and we believe that a stronger coordinated strategy and an expanded manpower development thrust would be useful in virtually all of our AID missions.

Where staffing and organization of this kind of program is a problem, certainly the land grant colleges and universities are well equipped to assist.

Just in closing, I want also to mention one other issue—the need for a comprehensive implementation of what is called technical support to missions concept.

Under title XII, there has been some limited implementation of this program. Small numbers of university staff have been called upon to provide short-term help in project design and evaluation. They have provided some technical expertise to the missions. We believe that title XII, as passed by Congress, provided for a broader vision of this AID-university partnership.

We would like to see a TSM program, a technical support to mission program, created for virtually every AID country, which would commit a university to a long-term relationship with that mission, with that country, with its institutions, and a long-term commitment by that university to resolution of pertinent development problems.

This vision foresees a university-AID partnership, as opposed to a contractual relationship, which is the process under which we now function.

It would include long-term assignment of university staff to enhance mission capabilities. It would include university commitment to the data collection and analytical processes we described previously as critical to policy formation and to decisionmaking on the portfolio.

It would require the university to develop and contribute to the process, to the mission, the long-term staff, stability, and program memory which often seems to be lacking now.

The scope of this kind of program could also include the development and administration of the mission's human resource development program.

This kind of partnership between AID and the universities requires, however, a greater commitment to title XII than perhaps either has shown to date. This certainly needs some further analysis.

I appreciate this chance to address the committee.

[The prepared statement of Mr. Collom appears in the appendix.]

Senator KASSEBAUM. Thank you very much, Dr. Collom.

Mr. Morss, it is a pleasure to welcome you.

STATEMENT OF ELLIOTT R. MORSS, PROFESSOR OF ECONOMICS AND ASSOCIATE DIRECTOR, CENTER FOR ASIAN DEVELOPMENT STUDIES AT BOSTON UNIVERSITY

Mr. MORSS. Thank you, Madam Chairman.

I am sorry to hold everyone here. It has been a long morning, but I will try to be brief so you will have a chance to ask questions.

Senator KASSEBAUM. I have your full testimony which will be made a matter of record.

Mr. MORSS. Thank you.

Let me just quickly skim through and emphasize a few points that I think need to be emphasized.

There has been a lot of talk about donor coordination, and, indeed, I think I was one of the first people to write about it in an article in which I mentioned that in Lesotho, there are over 300 projects and 60 donors. I think there are now more donors than there are developing countries, and I am not just talking about PVO's as donors, but significant donors in developing countries.

So I am very much a supporter of efforts for better donor coordination.

However, I do want to mention that I do not see donor coordination as the end product.

I have visions of the World Bank chairing meetings, imposing the donors 'wills on these countries. It seems to me that what we are really trying to achieve is that these countries are in a position to make their own determinations. In this regard, I am very supportive of efforts that are currently underway at a number of American universities that have many students from developing countries.

I hope that by the time the next generation is in control of these countries, they will treat donors as salesmen, coming to their doors with products, and be in a position to judge their value based on their own policies and needs.

The second point I want to make has to do with the concern about policy dialog. The way it has been presented so far is that donors go in and tell countries what to do and leverage them to do it. I have two problems with this approach. The first is that the donors historically have not been correct in what they have asked developing countries to do. The history of development assistance in the seventies in Africa, in which the developing countries were even less able to control their own policies than they are today, everyone admits involved numerous mistakes. Those were donor mistakes. Those were not developing country mistakes.

I have reservations about the appropriateness of the policies that are now being recommended to developing countries by the donors. I mention only one. I am not quite sure what will happen as a result of the policy dialog regarding food surpluses that will be generated in Africa if donors are successful.

The point is that the policy dialog, which is an immediate type of dialog through which leverage is applied to a country to adopt donor's most popular beliefs about what is appropriate, I think is not what we are after. It seems to me that a more appropriate policy dialog involves longer term collaboration with developing countries in which they have a chance to engage with us not under pressure, but in a collaborative style so that they can come to see what is in their own best interests.

Let me now briefly turn to what I was asked to talk about. I know you have my testimony. This has to do with project design, and specific questions about project design.

Basically, my testimony says that, with the best intentions during the seventies, too many restrictions got into our foreign aid legislation. In particular, I am concerned about budget line items imposing great restrictions on what AID can do.

I mention just one thing in light of the concern about trade. Two years ago, there was a considerable effort in AID to develop a communications program: a sensible thing to do since we are the leaders in a number of the computer-telecommunications areas. The only one that is close to us is Japan and, quite honestly, I believe we are ahead of them in terms of most applications for developing countries.

One of those 22 AID policy papers is a communications strategy policy paper. There is no money for it. The reason there is no money is because the existing fiefdoms were unwilling, understandably, to give up their sectoral funds, and, hence, with a flat budget, there was no way to introduce and try this concept. But it was an eminently sensible program. There is probably going to be more invested in Africa and Asia in communications infrastructure than in anything else. All we were suggesting was that we get involved in the planning for communication strategy.

This is very sensible: It is what the Japanese do. They basically plan a communications program for a country, and, of course, the program is designed so that Japanese products are purchased.

The second point that I made in my testimony was that the costs of set-asides are far greater than the benefits. I am speaking here of minorities, small business, PVO's, and universities. It seems to me that AID has worked under enough shackles so that they do not have to worry about *x* percent going to a certain type of organization. I would like to see AID people have the freedom to make their own judgments about what they want to buy. What I have seen personally is that these set-asides generate a great deal of cynicism among AID staff. It really cuts into what they feel they should be doing when they are forced to set aside a certain amount of money for an organization they do not have any confidence in. I think it is something that we should try to get rid of.

Finally, I mention in my comments the "bulk" problem that has to do with all of the requirements that you have to fulfill in designing a project.

Paper and writing per se are not that expensive. But when all your time goes into complying with AID regulations, you don't have enough time to spend focusing on the guts of the problem, which is either going to make or break the project. I have seen this as a person who has been involved in a number of project designs.

The other issue is that these restrictions would not be a burden if the product were satisfactory. I think, unlike the spokesman yesterday for the Heritage Foundation, the reality of the situation is while we cannot show a scientific connection between aid and development, the figures that the Administrator cited yesterday in the latest OECD DAC 1985 report are very interesting. They showed that the per capita growth rate of developing countries was 2.8 percent between the time that AID was started and now. The growth rate in the OECD countries for an equivalent development period—the last 100 years—was 1.8 percent; during that same period of time, developing countries grew at only 0.8 percent. Of course, you cannot causally assert that as a result of assistance, it has had this effect. But I think there is reason to not be too dissatisfied with the results.

However, by the same token, I think we all are concerned about projects having a greater impact. The problems we have had have been highlighted in numerous writings. The problems have basically been that under the pressures to program moneys, and legislatiave restrictions, AID people have not been willing to focus enough time on whether or not projects will in fact achieve their stated objectives.

Tomorrow I understand you will be hearing from representatives who will talk about evaluation. I want to say something just briefly about this because I think this is certainly one place in which we could, in theory at least, get better results out of the projects.

About 10 years ago, now, a group of us felt that because of the lack of accountability within the agency for project outcomes, there should be greater evaluation efforts conducted by AID. At that time, Senator Glenn introduced an amendment which was adopted, which basically told AID to do more evaluation work. My sense of the results of that is that it did not work. While it is true that AID does more evaluations now than before, for a combination of reasons they are not integrated into the system as I outline in my written presentation.

At this point I conclude that the answer to the question of accountability is for the Administrator to make a new effort on the implementation front. By this I mean he should not only cancel nonviable projects but dismiss or demote people who are responsible for approving and allowing them to continue.

I realize he has in the past canceled projects. I don't know of a case in which he has dismissed or demoted someone who was responsible for carrying out such a project.

In terms of the restrictions that are imposed in the aid legislation, and I want to emphasize that on balance the restrictions outweigh the benefits. The easiest thing at this point would be simply to transfer all of the development assistance moneys into the ESF accounts, along with the criteria for distribution, such that the same countries that are currently benefiting from the development assistance money would also benefit from them if they were under ESF accounts. This would eliminate patchwork legislation, lobbying, and restrictions that special interest groups have built into the legislation. I think that the ultimate result would be to give the agency a chance again to have the freedom to do what it thinks is best in terms of development.

Senator **Kassebaum**. Pardon me, Mr. Morss, but do you mean without functional designation?

Mr. MORSS. The effect of transferring these moneys would be to allow AID to do basically anything they wanted. It would get rid of the sectoral requirements. Although there are some sectoral requirements I happen to favor, I know that as soon as you begin debating which sectoral requirements should be kept or deleted, you are right back into the same sorts of problems we are having with tax reform. Every interest group wants to ensure their interests are reflected in the legislation. I would like to see all these special requirements removed and give development professionals a chance to do their business the way they see best to do it. I think it would be a very positive step at this time.

I have one other basic comment on the current situation, which I emphasized in my written remarks. There is no real compatibility—in fact, there is a major incompatibility—with trying to buy political allegiance with our development moneys and trying to promote sustained economic and social development.

This administration appears to believe the contrary. To illustrate my point, let's look at the most extreme example, Egypt. There is no way that AID can sensibly program the enormous amount of money we give that country for development. In fact, we have created a dependency, such as we created dependencies in Turkey and in Israel, and are in the process of creating in many Caribbean nations. The economies of those countries are in a mess. They are in a mess because they have not had to make it on their own.

The reason there is a real incompatibility is this: Suppose there is need for tax and expenditure reform in a country, and AID comes in, say, with its policy dialog mandate and says—and I am using here the leverage mode, of which I do not particularly approve—but, suppose they are saying OK, increase producer prices and do some other things that are not going to be very popular and you will get a certain amount of money. If it is clear to the country that the State Department is going to continue the money whatever, we lose our policy leverage.

In the case of Egypt, it is ludicrous. The place is overrunning with money. There is no possible way that that country is going to go back on a self-sustaining basis. A couple of years ago, an AID official spoke and said that the size of the private sector is increasing in Egypt. It turned out that it was because there has been a tremendous explosion in Egyptian consulting firms. It appears we are now trying to disburse these moneys through a totally artificial sort of generation.

The point is that we are going to continue, during this administration, to try to buy political allegiance. I and many other development professionals are concerned that AID is able to maintain its integrity. I think the way we can do this is as follows: Whenever we go into a country, the Administrator can ask his staff to estimate how much money we can effectively program for sustained economic and social development. The answer to that question should determine how much of bribe money AID is going to try to use. That does not mean the country is not going to become a dependency, but at least AID is not put in a position of trying to defend the projectized money, as is the case in Egypt. This makes no sense whatsoever, and it makes the good professionals at AID wonder about what they are being asked to do.

Let me make just a brief comment on the future of foreign assistance. I think that we tend to look at issues in terms of the current situation, not in terms of changes that are worth reflecting upon. The 1970's were a period of project intensive activities. In retrospect we needed during that period a lot more management capability than we had. This is true not only within the agency, but also with contractors, universities, PRO's, et cetera. The agency tended to hire contractors on the basis of specific disciplines. They wanted a certain number of agriculturalists, economists, et cetera, and there was not ever a slot for a senior professional manager. This was a real shortcoming, and part of the reason the projects did not work.

What I see happening, however, now, and I applaud this change, is a move toward more amorphous, but highly desirable, goals, goals such as institution-building, where we are trying to create the capacity in these countries so that they can manage themselves, and also policy changes and the idea of getting them, again, to think more sensibly about the direction in which they want to go.

I also believe we are moving away from detailed logistics-intensive, linear, project-specific activities that required managers responsible for phasing project activities so that when a team arrived, their equipment did not come 2 or 3 years later. A tremendous amount of time and effort was wasted with people just sitting around and waiting for equipment. There are all sorts of examples of this.

The new type of future that we are looking at is going to be much more indefinite. Here are three examples of why.

The microelectronics revolution studies that are underway suggest that this technology is going to eliminate the comparative advantage that low-cost labor countries have in producing industrial products. In other words, the Asian Rim is on its last wing, so to speak, in terms of low-cost labor. The question then becomes what sort of industrial policy makes sense.

The second question I would mention is what are we going to do if Africa does, in fact, succeed in increasing agricultural production? Globally, there are massive world food surpluses a result of ill-conceived policies in many industrialized countries. How far down the road do we go in promoting agriculture in Africa? Should we now start worrying about the people who continue to flock to the cities and, because of the failure to put in urban infrastructures, are creating human disasters in those cities?

Then there is the whole question of environmental degradation and where should we go in this regard.

The point is we are moving away from the linear sorts of projects of the 1970's. What this means is we need fewer managers and more experienced, savvy, senior advisors to deal directly with the countries and help them determine the appropriate course in which they are going.

That is going to take a change in the way AID does business. I think it is a change that will require far less AID personnel to be in the field. However, I hope that before any major changes take place in that regard that some serious studies be done on different ways in which AID can do business. I would hate to see the agency take actions under pressure without such studies being done. Too often redeployments and cutbacks are made in government without carefully thinking through how they should be done. Private business would not do it that way. Private business would hire people to figure out how they should change their way of doing business. I think also AID should do the same.

Thank you.

[The prepared statement of Mr. Morss appears in the appendix.]

Senator KASSEBAUM. Thank you, Mr. Morss.

I wonder if it would be possible, Mr. Love, for you to join the panel once again. I would appreciate it if you could do so because I think it might be useful from our standpoint if we could take a couple of projects and walk them through to see what works and does not work or what could work better. I think all three of you have offered some similar comments in some ways.

I would appreciate it if you could offer some expertise from the agency's side.

If I may, Senator Murkowski, I know you want to ask a question. Mr. Shear has to go in a few minutes. If I could just ask one question, then I will turn it over to you.

Senator MURKOWSKI. Surely.

Senator KASSEBAUM. I would like to follow through on something.

I know, sir; that you were a mission director in Senegal. That has been part of the Sahel development project. It seems to me that the Sahel project is a good one to look at to analyze the problems in Africa. It has no functional accounts. Correct me if I am wrong, but I believe in the last 10 years, some $1 billion has been spent there by all donor groups. I think the U.S. share has been about $750 million or so.

Yet, today we are just slowly, hopefully, beginning to see some turnaround. The per capita agricultural production has declined. I wonder if we could take that one as an example of whether sectoral responsibilities or functional accounts are or are not necessarily important, because, as I say, they have not applied to the Sahel. I wonder if you have any observations to make regarding that particular effort.

Mr. SHEAR. I would like to make two or three observations.

First, while they have not been functional accounts in the conventional accounts for the Sahel program, unfortunately, the concept of functional accounts has been applied. Therefore, it has not been as liberalizing as one might have hoped when the legislation was first put forward.

At the same time, when one is dealing with large areas which require an integrated approach to development, such as river basins, the unitary aspect of the Sahel account has been very, very helpful. If one had to deal with a health account, a special studies account, an agricultural account, an educational account trying to bring them together, would have made the Sahel planning a great deal more difficult.

Relating to your first question, Senator, one of the reasons probably that the overall Sahel program has not succeeded more has been for a reason which I was describing at the beginning of my testimony. It is this. The growth of population has gone on unabated in the Sahel, despite the efforts of AID and one or two other donors. The population of both people and animals has been a major constraint to the success of the Sahel development program, continuing, therefore, the environmental degradation of the area.

Second, I think the institutional weaknesses of the area it will take a long time to correct. Agricultural research stations barely exist now in the Sahel. They did not exist at all 10 years ago. This indicates the long-term aspect and the need to apply technological requirements to the human condition and to the natural environment.

Senator **Kassebaum**. I hope each of the panelists would feel free to chime in.

Is this an example where there should have been better continuity? You mentioned institutional aspects of agricultural research. Have we lost some continuity there by not starting out—and I don't know whether this was true in the Sahel or not—with a coordinated plan that was conceived for 15 years and sticking with it? Or have we, because of drought conditions and so forth, made certain adaptations along the way?

Mr. **Shear**. I think it might be more appropriate for Mr. Love to answer that.

Mr. **Love**. I am somewhat reluctant to talk about the Sahel since I have the "Father of the Sahel Program" sitting at my left.

I have gone back and reviewed some of the Sahel Program. While activity accelerated in the Sahel following the drought in 1974 and 1976, major legislation enacted as recently as 1978 was defined as a "Compact for a Generation." We were looking at a 20- to 30-year timeframe within which to begin to address the problems which I think everybody accepted were in one of the most difficult and unforgiving environments in Africa.

It has been only 8 years since that legislation was enacted.

On top of that, in the last couple of years we have faced a very serious drought, as bad if not worse than what we faced in 1974. This has clearly diverted some of our AID mission's attention; it has obviously diverted the attention of the host governments. It has serious jeopardized programs in areas such as livestock.

So I think long-term continuity is critical. We have not yet been in it long enough on a sustained basis to begin to get the kind of results that we all would like to see.

We clearly have learned some lessons. I think Dave's point about population growth is on everybody's mind. We must focus on the population issue. It is not only a problem vis-a-vis the per capita food production, but also is pressuring people to move into marginal lands to grow food and pressuring livestock to move into marginal lands that are not suitable for grazing. Population growth is contributing to the degradation of the environment in the area.

We found institutional capacity weaker than we had anticipated. We certainly found the human resource base to be weak.

The other problem touches on a point made yesterday. It is the question of the existence of technology to transfer in the Sahel. We went in there believing that we probably had better agriculture technology to transfer to the Sahel than we actually did. ICRISAT, which moved into the Sahel with considerable experience in arid and semiarid soils found, after working in there for a few years, that they really had to go back to the basic drawing board. They now believe they must start working with indigenous Sahelian varieties in order to come up with new Sahelian-specific varieties to achieve an increase in production. ICRISAT found they could not readily transfer varieties from South Asia. As a result we lost quite a few years going through a learning process on the agriculture situation.

In the IPM project and in the regional food crop project, one of the projects about which you had concern, we never did develop the technology on integrated pest management that we had anticipated would be available for extension for food crop protection.

So there was also a technology problem there, but I think the lessons on inadequate technology have now been learned.

One of the things which poor technology caused was an inability to really make the production portion of integrated development work. The supporting technological and institutional capacity was just not there.

Our programs are now being modified to incorporate these lessons. But we are still in the process of evaluating the experiences of the first few years of the Sahel program.

Senator **Kassebaum**. Thank you.

Mr. Collom.

Mr. **Collom**. Senator, in part, what is being said, I think, is that the new African strategy is about 10 years late. The priorities which are indicated in that new strategy statement are precisely what should have been done 10, 12, or 15 years ago. The agricultural research institutions in Africa are critical. It simply is not possible to develop irrigation projects and to develop large-scale development projects and to promote extension activities if the technology which is available, if the information base which is available, if the genetic materials which are available, are simply not adequate to the task and will not respond, as we expect them to.

So, the agricultural research information per se and the indigenous institutions to continue to work with that material and develop it and expand upon it are critical to success, as are the human resource development institutions and the educational institutions which are required.

Senator **Kassebaum**. Thank you.

Mr. Morss.

Mr. **Morss**. I have a slightly different view of this.

While I am not an agricultural researcher, I am working on a panel at the Office of Technology Assessment, and one of the things we are looking at pretty carefully is agricultural research management.

Everyone is saying that additional research is needed if we are to do anything useful in the Sahel. I take that point, but it is worth asking the researchers whether there is any reasonable timeframe in which they think they can do things reasonably in the Sahel. There is a sort of sense I have that many experts believe if we keep working at the African problems throughout Africa, we are going to find solutions. I do not take that position. I think there are parts of Africa that are basically uninhabitable and that there is no point in putting development moneys into these areas. What we have to recognize is that if people want to choose to live there and occasionally die, they should be allowed to, and we will put relief money in because we do not like to see people die.

But much of what I think we are seeing in Africa is investments that were made by people who were blindly optimistic about what we could achieve.

If the researchers can say fairly definitively that within 10 years we are going to find ways to grow stuff where there is not any water, or we are going to be able to find cost-effective ways to generate water, OK. But I think those questions need to be asked.

Senator **KASSEBAUM**. Mr. Shear.

Mr. **SHEAR**. Senator, I would disagree somewhat with the way in which Dr. Morss has phrased this.

There are 11 major river systems coursing through Africa, 5 of them in the Sahel alone. Almost none of them has been tapped for agricultural development purposes. There are currently dams going forward on the Niger River in Mali and on the Senegal River in both Mali and in Senegal.

But these are just beginnings.

There are enormous underground water resources in Africa which also are virtually untapped. The problem there is how can they most effectively be utilized. Some of the water systems are rechargeable; some are fossil water systems.

I think, contrary to what Dr. Morss is positing, I would say that in most of Africa—not in all of Africa, but in much of Africa—the people, the land, and the water do exist in sustainable development. What is terribly different, though, is that water does not exist in the same quantum as it does in Southeast Asia. Therefore, an Asian style "Green Revolution" would be very difficult to bring about in the same dramatic way in Africa, because water has to be used very differently. It has to be used much more conservatively.

The "Green Revolution" is possible where you can use strong applications of fertilizer with new varities, and that means a large amount of water.

Senator **KASSEBAUM**. Let me just follow through a moment.

But I know, Senator Murkowski, you have to leave.

Senator **MURKOWSKI**. I want to comment on your hearings from the standpoint of oversight.

So why don't you go ahead.

Senator **KASSEBAUM**. Thank you. I would just like to ask a follow-up question on the river basin matter.

It is my understanding that in planning the Senegal River basin project—and I guess it is still ongoing—the initial concept, however, has been changed.

Now I need some help with this. But I understand that originally it was designed with special sensitivity to the indigenous needs, the local areas involved, but that at midpoint in development it was changed in concept.

Mr. Love, can you comment on that? Is this a problem in irrigation projects? Has enough thought been given to the longterm and to who will see projects through and supervise them? Why, if the project was changed at midpoint, was that done?

Mr. **LOVE**. First of all, in embarking on something as complicated as the development of the Senegal river basin or some of the other river basins that do exist in Africa, we are going to have to pay attention to the very, very long-term timeframe that is required for development. Many of these river basins are not currently inhabited by agriculturalists activity farming as was the case in some of the basins that were developed in East and South Asia. There you have people who have been farming the land for many generations, and what you were adding was enough water to add a second crop or a third crop.

In some cases in Africa you are looking at the problem of resettling people who were not in the area and are starting from scratch. It is a very complicated program.

The change that took place in the ongoing process of the OMVS project was not one of turning our back on the indigenous local people, at least not from Washington's point of view. The project was a contentious one between the Senegal mission and the counterpart office in Washington in terms of how we approached it. Basically, at least from my point of view, it was partially an issue of the relative role of the OMVS as a regional institution versus the bilateral responsibilities of each individual country for example Senegal, Mali, and Mauritaria.

What we eventually did was to redelegate the components out to the individual AID missions to work it out in conjunction with the host countries. They are now doing this. We also provide some assistance to the OMVS as an organization to strengthen its regional planning capacity this enhancing some weaknesses in the regional plan.

There were differences of opinion between the mission and Washington on that point. But none of us felt that we should back off from an involvement with the local population. At least I am not aware of that issue coming up.

Senator KASSEBAUM. You mentioned a number of rivers in the Sahel. Is a project like this part of a coordinated effort for the whole region taking account of how the tributaries feed and the floods take place? Is this part of a broader analysis of what irrigation can accomplish and how it should be done from one country to the next?

Mr. SHEAR. I would like to make just a brief comment, and I am sure Mr. Love would like to comment as well.

The way you posited the question is excellent in the sense that it really indicates the importance of coordination for these river basins—coordination among the river states themselves, such as Mali, Senegal, Mauritania, in the Senegal river basin, and many more countries, more than seven for example the Niger river basin—for the need for those countries themselves to coordinate, and the need for the donors through indigenous African regional organizations, like the Senegal River Basin Commission, to coordinate among themselves.

It also highlights the difficulty of that coordination.

You see along the Senegal river basin many different kinds of irrigation projects underway with varying degrees of success. World Bank activities are very large and very heavy with respect to machinery, where the farmers play a very small role in terms of decision making. They are essentially day laborers. In others—some done by AID and some by the French—the village is the primary unit of management for the development, and the projects develop very much with the idea of the beneficiaries in mind.

It is an excellent example, really, of problems of integration, problems of cooperation, but I think also prospects for the future in terms of some real growth.

Senator **Kassebaum**. For instance Mr. Love, do you coordinate with the World Bank as far as what they are doing and what AID is doing?

Mr. Love. Yes, we do.

There are two areas I would emphasize. Programs were set into place by AID to help in the long-term planning of the basins. So one of the institutional components of the Sahel program was to finance development planning with emphasis on developing the capacity of Africans to do that.

Now, in the process of putting projects together, we are working with the African institutions and directly with the Bank to some degree. We have had a good interchange and coordination. I must say that it is not yet perfect. There is still a problem there. I think there were some disagreements on the economics of building the Manatali Dam and the Diama Dam on the river in the first place.

Coordination on the project level is not perfect. Better basic overall planning is one way to get at better coordination. If we have an agreed-upon analysis of a given situation, the dialogue between the donors and the host country can obviously be more effective.

Senator **Kassebaum**. I remember Elliot Berg testifying before the committee about 3 or 4 years ago. We were discussing the food and agricultural problems of Africa. He said that the United States should stick to what it does best, things like the building of roads.

I was struck, Mr. Morss, with your comment about the communications systems.

I wonder, as you look at where we are today, having swung from one approach in the sixties to a different approach in the seventies, whether we should not be concentrating on things like roads and communications in areas like the Sahel?

Should this be part of our planning concept, as we look at the whole? What can we do that would be to everyone's long-term best interest?

I have to wonder sometimes, when we have so many people planning irrigation projects, so many dams going up and so many different agricultural projects—not that they are not important—whether what we are doing really makes sense overall. Maybe to really have an impact we need more attention to coordination and continuity among ourselves, as well as to such basics as roads and communication.

Is there a case for going back the larger infrastructure concept.

Mr. **Love**. Well, I think there are a couple of constraints to going back to it.

When Elliot Berg testified here 3 years ago I was up here that same day. I commented that I thought during the seventies in the Sahel—not just in the Sahel, but in all of Africa—we had not made the right kinds of investment. Not just in infrastructure, which is an important part of it, but also in institutional development, in manpower training, and in the Agricultural Research facilities that were necessary. These are investments that were made in Asia and in Latin America and in parts of the Near East during the prior 20, 25, 30 years and longer. When we tried to move into basic human needs implementation in Africa, we did not find the supporting physical, human, and institutional infrastructure that was necessary for success.

Africa, in turn, faces horrendous communication problems in terms of transport infrastructure as well as other communications modes. The costs of moving commodities throughout Africa, whether you are moving commodities in or out, are horrendous. They make prospects for trade substantially less economical than you would find in Southeast Asia. There is a tremendous need to improve infrastructure; but the cost also is horrendous.

AID I think is also constrained in addressing this problem partially by its functional account straight jacket. We would be doing transport in some cases out of 106, and in some cases out of 103. We have functional account constraints which dictate which sectors we should be working in. But we also have, I think, an overall resource gap problem when it comes to financing infrastructure. We can do some of it in countries like Sudan, where we have big ESF and DA programs combined. There we can allocate some of these funds to infrastructure.

We should realize it is not a low-cost operation, nor is it a short-term operation in Africa. Also, the economics of some of these road links do not look that good because of the low population densities and the limited amount of trade.

So the weak economies mean we must find lower cost transport technologies in an effort to begin to open up these communication links.

It is going to become much more serious when we start moving into the problem that I touched on this morning, on which Mr. Morss also commented—the agricultural surpluses that are showing up regionally and country-wise in Africa.

We had a session with John Mellor, who is going to testify the day after tomorrow, about what could be done to promote greater trade in food in Africa. He highlighted transport as more of a problem than some of the policy constraints. This surprised me. But I think they are interrelated issues.

Senator KASSEBAUM. Mr. Shear.

Mr. SHEAR. A dramatic illustration of what Mr. Love is saying is a study we did several years ago which indicated that it was cheaper to land a ton of sorghum from West Texas at the capital of Mauritania than it was to grow and move it from Senegal only 400 miles away from the same capital.

Senator KASSEBAUM. Senator Murkowski, we are pleased to have you here today.

Senator MURKOWSKI. Thank you, Madam Chairman.

I want to commend you on your effort to address issues that I think are somewhat misunderstood by many of our colleagues as far as the general aid program is concerned, and by a good deal of the public as a whole, as we according to some of the polling information we get. Unfortunately, in if there is any reduction in Federal spending, foreign aid is at the top of the list.

I have listened to a small portion of your discussion this morning, and I have observed your concern over increasing costs associated with professional commitment and that much of the funding is lost in the administration of the programming.

I think it fair to say that there is a significant industry in the United States based on consultants providing specific information and guidance to the Government so that appropriate decisions can be made to get the very best return on the dollar.

But if I were going to suggest any substantive changes, Madam Chairman, there is a definite need for simplification, clarification and goal identification. More importantly, a clear understanding as to who has responsibility and accountability is necessary.

More often than not, aid proposals, are so extraordinarily complex that a consultant is required to interpret the proposals or draw the specifications or a little of both. Pretty soon, you have a whole group of professional consultants managing the process from assessing the recipients' needs through the evaluation process and the decisionmaking process. When things go "gunneysack," it is not clear where the accountability for failure is. The whole process has become so complex that the individual recipient cannot identify clearly where that responsibility lies.

I think in your efforts to address this concern, more emphasis can be put on clearly defining what are our goals. Also the process can be understood by the layman, he can have some understanding of who he can hold accountable for the success or failure of an aid program.

As a consequence, I think such understanding would achieve a better response by the public to the recipient countries.

When we bring the private sector in, in general terms, as has been brought into the discussion—I believe Mr. Morss has said the private sector would not do this or that—one of the uniquenesses of the private sector is that accountability is very clear, for the most part. That is not necessarily true in the government sector, where it is very difficult to maintain accountability because of the nature of the beast.

We talk about the term "leveraging" and the appropriateness of using aid as leverage. I would agree with you that in some instances it is not desirable. But, on the other hand, when you have few other alternatives, why there are times when it is appropriate.

I would like to participate in the portion of your hearing, Madam Chairman, that would bring up the appropriateness of our aid to countries who we feel have not been doing an adequate job in combatting drug trafficking within their borders. We should consider assistance in form that would encourage these countries to use U.S. assistance to combat drug trafficking. We have to make decisions whether we are going to follow through and cut aid as a consequence of their inability to control drug traffic, if we will provide them with more funds to encourage them to cooperate.

I think it is very difficult for members of the committee to make these areas of evaluation where it is. But in some respects it is similar to the decision that was finally made to combat terrorism. We made a decision and we stand behind that decision. In the case of drug eradication, we have to identify some countries which are not being responsive to U.S. concern about drug traffic and follow through with our threat to cut off aid.

I am not convinced that there is any other way to communicate the message that we mean business. That, of course, is the leverage principle, one that I think it is fair to say government ordinarily does not use too well.

Again, Madam Chairman, I certainly commend you on your efforts to identify the problems in providing greater service capabilities, because it is the intent of the American people to address the humanitarian concerns that we have throughout the world. I think those who administer aid programs have a real obligation to clarify in the minds of the public that indeed the aid is going to worthy recipients, and to satisfy those of us who have oversight responsibility. Indeed, the administrative function is not a burden, but can significantly contribute to better understanding of the process and the concepts behind aid programs.

I appreciate the opportunity to make these comments. I would ask you when during your panel discussions would be most appropriate to bring up the matter of drugs?

Senator **Kassebaum**. Tomorrow we will be focusing on Latin America and Central America, in particular. So I think that would be a good time.

Senator **Murkowski**. Thank you. I would appreciate being able to participate in that.

Senator **Kassebaum**. Also, the AID Administrator has been invited to return to testify.

Let me only say that I know it is already noon and I realize you have to leave, Mr. Shear. But I do have a few more questions for the rest of the panel. Certainly you should feel free to leave if you have to catch a plane.

Mr. **Shear**. Thank you for your consideration, Madam Chairman.

Senator **Kassebaum**. Mr. Love, I have a question for you.

Mr. Collom spoke of accountability earlier. I wonder what you think about his suggestion for a long-term commitment with the university, rather than the contractual relationship, particularly regarding agricultural research.

Do you see any advantages to that type of relationship over various contracting methods?

Mr. **Love**. Well, I think the plan that I gave you today, which we developed, by the way, in full conjunction with BIFAD, both directly with BIFAD as an organization and using some of the BIFAD members as individual consultants, had two components in it. One was the research component itself for Africa, and the other was the attention to university building.

The research phase will probably end up developing in a number of different directions. We expect that the international centers will play a very strong role in the research section. We do expect the U.S. universities to play a key role. But I think it is more in the area of long-term university building where the particularly strong comparative advantage of the U.S. universities vis-a-vis other international bilateral operations exists.

Contrary to the statements made earlier, we have moved fairly quickly to implement the agriculture research phase. We have had numerous consultations in the field. We have reexamined our whole research portfolio. We have redesigned some of our projects. We financed some new ones. But, more importantly, I think we have cut out of our portfolio some of the activities that were tangential to a new continentwide priority on research. We are also in the process of developing, in conjunction with the World Bank and the other donors, an IBRD-sponsored secretariat, which will focus on agriculture research as an international donor-supported plan developed in conjunction with the Africans.

The university development is a second phase that we are now beginning to work on. I think it is in that area that I would see a stronger role for the U.S. universities than in the research per se, although they will have a role in the research.

Senator KASSEBAUM. I would like to go through another project, if I may, as an example. I think you are perhaps familiar with one I am going to mention—in Burundi.

This was a $5.9 million seed multiplication project, which was initiated in 1980, with the goal of producing 1,800 tons of improved seed varieties for distribution or sale to small farmers in the high altitude regions of that country.

It is my understanding that the project was conceived as a high technology, mechanized, thousand-acre seed project that evidently had some political attractions because it was located in the home province of the President of Burundi at that time.

However, even though almost all, or all but about a million dollars of that money has been spent, the results have been negligible. It was found that the soil actually was not conducive to this development, that the seeds that were being researched in this facility showed no real improvement over native seeds.

I would like to have you explain at what point AID makes an evaluation of a project like this, and decides whether to move forward or not. Shouldn't AID have stepped back and been a little more objective in its analysis.

Mr. LOVE. Well, I was hoping you would leave this one off the agenda. [Laughter.]

The project was set up as part of a four-part multidonor activity. The Belgian Government was to take the responsibility for doing the basic research, working with the Agriculture Research Institute of Burundi. Out of that research was to come the new seed varieties that were adaptable and usable in the high altitude of Burundi in what are admittedly poor soils. It takes good adaptive research to come up with the appropriate varieties for Burundi.

AID agreed to support the seed multiplication phase, taking varieties that were generated by the Belgian research operation, growing them out and making them available to the third and fourth stages, which were the extension services and the marketing of the seeds. These last phases were to be supported by the European Development Fund.

So there were three donors involved in that project.

Despite some delays in startup we moved faster than the other two donors. We ran into major problems with the quality of seed that was coming out of the Belgian research activity, which contributed to some of the complications in terms of the output of the operation. We are still having problems with the Europeans getting their extension operation in place.

So the problem here is one of weak donor coordination.

Also the soil was bad. But my understanding is that the soil in that area of Burundi generally is bad, and that to some degree you have to have seeds that are suitable to those conditions although it may have been that the soil quality could have been upgraded in some section of this site.

I am not aware that this happened to be in a politically selected location.

We did have an external review of the project in 1984, in which a team evaluated the project. This review pointed out some of the problems encountered with respect to the types of seeds that were being produced. Modifications were made to the project and it was recommended that the project be completed so that the seed multiplication component would be available as part of the integrated system.

Concerns also were raised in the early stages with respect to the public sector-private sector role of producing the seeds. A provision was put in the project to study whether private sector multiplication of the seed might be more desirable than a public sector approach.

Senator KASSEBAUM. Was this proposal made to us by Belgium then.

Mr. LOVE. This proposal was made to us by the Government of Burundi; the European Development Fund, and the Belgium Government. I think Mississippi State went out and looked at the overall activity in an earlier study. I would have to go back and check that. But I do recall that there was a study done on the integrated system before the mission decided to participate in it.

Senator KASSEBAUM. So, there was a technical done on the project?

Mr. LOVE. Yes.

But let me go back and doublecheck on exactly what was involved in that.

[The information referred to follows:]

BASIC FOOD CROP PROJECT

The Basic Food Crop project is a component of a larger, decade-long effort by the Government of Burundi (GRB), to develop a High Altitude Food Crop Program to help offset its problem of declining food production in an over-populated country with limited land resources.

The initial study for development of a High Altitude Food Crop Production program was undertaken by a joint European (Belgian)/Burundi consulting firm (SOMEBU) in 1977. Subsequent studies were undertaken by the European Development Fund (FED), which helped to identify the future program components, and the AID contractor, Mississippi State, in 1978. Based on the above studies and the AID design teams' findings, the GRB's High Altitude Food Crops Production program was planned and implemented in cooperation with the Belgian Government, the European Development Fund, AID and the Government of Burundi.

Senator KASSEBAUM. Still, $4 million is a lot of money in Burundi.

Is there a facility there that is producing seed at this point?

Mr. LOVE. Well, this farm is for the purpose of producing and multiplying the seed that comes out of the research facility. They are now working closely with the basic research facilities on testing and reproducing it for dissemination through the irrigation system.

It depends on how you go through the cost accounting. The costs on the maize and the potato seeds, which are two of the three, look reasonable compared to U.S. seeds. The wheat seeds are way out of line in terms of their costs. We are not completely sure why. It may be a startup problem or the cost allocation of some of the equipment.

Senator **Kassebaum**. You mentioned the possibility of getting the private sector involved in this. I wonder if it wouldn't make sense to turn this project over to someone in the seed business, to see if they can make a go of it? Otherwise, who is going to run it after we get this completed? Have we taken it to the point where the Burundians can run it?

It is my understanding, as a matter of fact, that they are eating the seeds and using them as food, rather than actually for crop purposes.

Mr. **Love**. If they are eating some of it, obviously that is not what it was designed for.

Without completion of the strengthening of the research and marketing phases of the operation, it might be somewhat difficult for the private sector to pick it up. Over the long run, we think private sector technology and management in the seed business offer a lot more than public sector alternatives.

But at the time we did this, we were not as conscious of that as we are now.

Senator **Kassebaum**. It is not my intent to put you on the spot today. This is the kind of thing, however, that makes one ask how we get into these things and how we get out, and at what point we really, as Senator Murkowski said, some accountability to it.

Mr. **Love**. As for getting out, one of the purposes of our evaluation process—not just our internal evaluation, but also the audits that are done by our IG—is to provide us with the information we need in deciding whether to continue or drop an activity.

We made a decision in the IPM project in the Sahel not to go further because that technology was not developing rapidly enough to go through the regional food crop production dissemination system. We decided to terminate that one until the environment justified getting back into it, if ever.

We have not made that decision yet in Burundi. But we will take another look at it.

Senator **Kassebaum**. Mr. Morss?

Mr. **Morss**. I want to make just a general point on accountability.

AID has two types of evaluation activities, if you want to call it that, in which they engage. One is the inspector general auditing system; the other is an internal evaluation program.

Now, the inspector general, as is true in most of the U.S. Government agencies, has a rather privileged, independent position, not threatened by the pressures that exist within the agency itself. They continue to do hard-hitting studies. But they tend not to look at overall impact, and focus more on the way money was spent.

My own sense, given what I know as a long-time consultant and a long-time evaluator of AID projects, is that it is awfully hard to build integrity into the evaluation system within the agency. There are all sorts of pressures that go along. In the consulting business we always kidded that we could only do one honest evaluation a year and continue to get evaluation business. Now that is not a criticism of AID. It is just the nature of things. If you don't have that independent status that the inspector general has, that is the sort of situation you are likely to get into.

My own sense of what probably would make sense at this point for AID is to say look, let's add a little more dimension to what the inspector general is doing and call that the project monitoring and evaluation activity, and then let's take the Office of Evaluation and ask it to look at broader questions.

Under Doug Bennet, they started some very fine cross-sector assessments. Questions you are familiar with, such as under what conditions can seed multiplication ever work. That was a good approach, sort of sectoral assessments. What works in a particular sector. It resulted in some very, very fine work.

What bothers me now is that the agency is spending most evaluation funds on project evaluations that are essentially monitoring activities.

I would like to see some of those funds used for more fundamental questions. Should we have just thrown out without any assessment the whole "New Directions" period, as this administration has done?

Compare, for example, the lack of literature coming out of USAID with the latest report of the OECD review of development assistance over the last 25 years. AID could have done a similar study. But we tend not to. We tend to move through the enthusiasms of the sixties, the enthusiasms of the seventies, and without looking back, without looking at the lessons learned, jump into a new millennium.

I wish we would take our evaluation moneys and stop doing these project evaluations. Leave that to the inspector general to do and let's start looking at these bigger questions.

Senator KASSEBAUM. Mr. Love.

Mr. LOVE. I would like to take strong exception to that.

I certainly support the need for an independent inspector general. In Africa, we encourage that and invite the inspector general to increase his staff, particularly in West Africa, so that he could work on the Sahel. We think that is important.

But we have also found that the time required to sort of mobilize that effort means that evaluations do not necessarily get to the managers in time for them to begin to correct the problems.

If we are going to hold our people accountable, then they need a wide range of tools—evaluations, audits, and analyses—so that the mission director knows just what is happening and can begin to correct problems in a timely manner.

If you put it on the agenda of an external auditor and that becomes the sole or primary means of reviewing these things, it takes sometimes 1 year or a year and a half to get the study done. By then, the opportunity to correct the problems in many cases is long past.

We have to have in the system a package of analytical capability to address project evaluations. We are now beginning to use private accounting firms to help in this analysis early in the curve so that we can begin to correct problems before it becomes too late in the game. If we wait too long, it becomes so bad that all you have is a white elephant on your hands and you really cannot do anything other than look for somebody to hang in the process.

Mr. **Morss**. I would just like to make a clarification of my position.

I would say, take half the resources in the Evaluation Office, give them to the inspector general, who does have independent status, who cannot be intimidated, and let him have those resources so that he can do these assessments on a timely basis.

Senator **Kassebaum**. Going back to continuity, what role does the Ambassador play as far as a focus on an ongoing effort? Does this not change every 3 or 4 years as you bring in different mission directors and different Ambassadors with some being more enthusiastic for a certain direction than others? Is this a problem?

Mr. **Love**. Yes. I think that historically this has been a problem in the agency. The agency has faced the problem of new mission directors reviewing program options and requiring changes in project design and program emphasis.

We have been trying, particularly this current administration, to force the missions to stick with current project activities and program thrust when in fact these made sense. This avoids diverting so much attention to new design and new startups. It is a problem we must continue to grapple with.

But this is not to say that because you change your mission director or because you change a project officer or a senior agriculturalist or an educationalist that you cannot have continuity and continue to support a long-term program in agriculture research or educational development. You can. I think it is more complicated if the people are revolving. Sometimes, however, you benefit from a fresh look at an activity when a new person comes in and finds that a particular project is not as good as it looked in the reports and should be redesigned.

Senator **Kassebaum**. Before we close, I would like to touch for a moment on education contracts.

Dr. Collon, being from Purdue and a land grant school, I would assume you have a number of students, do you not, who have come from Africa and are studying in the Department of Agriculture.

Since I have been involved in the Africa Subcommittee, two questions always have been is it better to contract directly with a university or to work through outside contractors who will handle the whole process of bringing a student over, and how important is it to have the students trained here versus trained within their own country.

Mr. Collom, do you or anyone else have any observations on this subject? It seems to me that these are critical questions, particularly as we face budget constraints today.

Mr. **Collom**. Certainly I think it is appropriate in most cases to have a mix of kinds of training. There are numerous opportunities to expand training for certain kinds of tasks, skill development, in country, and there are opportunities to use other countries' training programs, regional centers, the use of the Ivory Coast, for instance, as a training center, or Cameroon, for that matter, for some of the other West African countries. These kinds of things are logical and should be built into our programs.

On the other hand, there are a certain number of the trainees from these countries—it is true in Africa as well as any other regions—that ought to be in the United States and getting certain kinds of training here.

I think, as you move particularly toward the need for graduate training, training at the Masters or Ph.D. level for people in agriculture research, or to go back as professors in agricultural schools and in certain higher level policy areas, we can provide some of that very effectively here, particularly if we are innovative about our development of the training program so that it reflects the needs of that environment and those institutions in the country, in the host country.

I want to comment on the first part of your question.

It has been known for some time that the highest quality in our participant training programs has occurred where the connections, the linkages, between the host country environment and its situation and knowledge of it are shortest, where the linkages are shortest between that situation and the training institution, the training environment.

Therefore, universities as contractors, for instance, have been engaged in developing institutions or working with projects abroad and have taken participant trainees from those institutions to their campuses, or to other campuses, for that matter, but where the guiding of the training program per se, the administration of it, the management of it on a day-by-day basis, is done by people who have a stake in and who have rather good knowledge of the home institution, the home environment. Here we have found that we have gotten the highest payoffs in terms of the quality of the training that is provided.

In those kinds of instances, we tend to do more of the in-country thesis research kind of options and things of this type, which add to the quality of the training program.

The more intermediaries we get in the process between the host country, the host country environment, and the ultimate training institution, the more difficult it is to guarantee that the final product which is turned out is what we really needed.

Senator KASSEBAUM. Mr. Morss.

Mr. MORSS. I would like to offer a couple of comments as a representative of a non-land-grant university. Boston University, like a number of universities, focuses on development economics. If you are trying to teach someone to learn how to use a computer, or if you are trying to give someone a short course in evaluation techniques, there is no question that probably from a cost standpoint it is sensible to do it where they are located. When we are talking about institutional development, we are talking about a much broader concept: a sense of values, a sense of looking at the world, a way of thinking that it is awfully hard to write down on a piece of paper and list.

There I feel confident that our interests are best served if those students continue to come to our institutions of higher education. There is something about that that is hard to define. When they have been here to get an undergraduate or graduate degree, they have developed relationships with people, they have seen the way the world turns from our perspective. I think that should continue to be an important part of our development assistance work.

Senator **Kassebaum**. How do you feel about intermediary contractors? Is there a certain cost effectiveness for the university itself to be engaged in bringing the students?

Mr. **Morss**. I can only speak for Boston University and others like Boston University. Having been in a consulting firm, I would say that universities have trouble doing things on a timely basis. They have their own pattern. They have their own timeframes.

I do not see that there is any necessary advantage to AID in using intermediaries. It seems to me that generally these professors are either going to do it or they are not going to do it, and they don't care that much about how they do it. Generally, the overhead rates of intermediaries that I know are in the same ballpark as they are for universities.

We have entered into a number of contracts with consulting firms in which our overhead rates are about the same as the consulting firms', or else we would not have been able to do it.

Mr. **Collom**. I would like to speak to that as well.

I concur with the comments in general by Professor Morss. But I do want to add that we have shown in the past that the intermediaries do add cost as well as distance between the training environment and the originating environment.

I believe that and I think that BIFAD's training committee, which has been working on this from the point of view of title XII, has demonstrated in several studies that we can cut out some of the administrative costs and some of the costs of communication, and so forth, as we add these intermediaries by going direct.

The question of overhead is an interesting one. I believe that we will find, for instance, that certain parts of the training program in almost all universities do not result in additional overhead charges. Such items as tuition, for instance, do not enter into the calculation of indirect costs, which is added on.

So we need to look at that quite carefully.

Senator **Kassebaum**. Thank you very much.

I really appreciate your staying, Mr. Love, and taking the time to participate in this second panel.

Is there a further comment?

Mr. **Love**. I wonder if I could make just one last comment, going back to some comments that Mr. Morss made earlier. I so strongly agree with a couple of his opening comments.

One is that it is the Africans themselves who are going to have to determine where they are going. Certainly, if we have left the impression in our discussions yesterday and today that we believe the donors have the answers for the Africans and could impose them upon them, I would like to dispel that impression. The donors certainly were part of the problem during the 1970's in Africa and may still be part of the problem today.

Second is policy reform. We do not look at it as an event. We look at it as a process. It is a process that involves dialog with the Africans themselves. It is a process that, as I think was pointed out earlier today, requires continued analysis of the sectors that are involved in order to develop the basic information upon which you can begin to carry out the policy dialog.

I neglected to point out that in the case of Zambia, we did enter into a long-term institutional contract with some United States universities to work with the Zambians for the purpose of doing analysis of the agricultural sector and to look at the specific areas around which we would seek opportunities for reform. Out of that, which included direct training in the universities of some of the Africans, came some of the opportunities for Zambia's successful policy reform efforts.

We recognize that this is a process that takes a number of years and direct participation by the Africans if it is going to work.

I just do not want to leave the impression that we looked at it otherwise.

Senator **Kassebaum**. Thank you very much. We certainly have appreciated everyone's participation.

That concludes this hearing.

[Whereupon, at 12:32 p.m., the hearing was adjourned to reconvene at 1:35 p.m., Wednesday, April 23, 1986.

AID OVERSIGHT

WEDNESDAY, APRIL 23, 1986

U.S. Senate,
Committee on Foreign Relations,
Washington, DC.

The committee met at 1:35 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Nancy L. Kassebaum presiding.

Present: Senators Kassebaum, Murkowski, and Cranston.

Senator **Kassebaum**. The hearing will come to order.

It is a pleasure to welcome on this third day of hearings on our AID oversight Mr. Dwight Ink, who is Assistant Administrator for Latin America of the Agency for International Development. He will be accompanied by Mr. Rollis, Mr. North, and Mr. Butler.

Rather than going into each of your responsibilities at AID, I will let you mention that as you might have comments.

I very much appreciate your coming.

Yesterday, we explored how projects got off the ground in Africa and at the various steps of planning and execution. Today it is our hope to focus on implementation and evaluation and whatever else may come up.

Before I call on you, Mr. Ink and on your associates, I would like to turn to Senator Murkowski because he has to leave shortly. He was here yesterday and has some special areas of concern that I think fit in with your interests and the focus of your responsibilities.

Senator Murkowski.

Senator **Murkowski**. Thank you for accommodating my schedule, Madam Chairman. I do apologize. I have to go to the Judiciary Committee in a short time to introduce a Federal judge, or someone who hopefully will be a Federal judge to the committee.

I did want to compliment you again on the significance of these hearings. I think your effort to address some of the complexities associated with our Aid Program is going to be most beneficial.

One of the specific issues which I believe needs to be examined again is how we handle development efforts, recognizing the national priority of our Government assigns to combatting international drug traffic. There are many of us who have been concerned about the necessity of coming up with some appropriate method for this. The traditional use of leverage, the idea that we would condition our aid on evidence of such progress, I think leaves us all with some hesitation as to its merits. On the other hand, realistically, that is an appropriate method, recognizing, that we have given certain countries assistance specifically for drug eradication. But we seem to play the chicken and the egg. In some respects the countries indicate that the problem is so significant that they need more money to address it and only money will solve the problem.

I think most of us would agree that money is not the single most significant issue. It is the intentions of the governments and those in authority within the recipient countries. Congress has authorized a portion of our foreign assistance funds specifically to combat drugs.

I am not going to comment on the adequacy of the amount because realities in government today are that we are not going to have enough money to do everything we want to do, so we will have to continually reprioritize.

I, personally—and I think a number of my colleagues share this feeling—am at the point where indeed there has not been enough good faith shown, particularly by some of our neighbors in the Southern Hemisphere. Unless I personally receive satisfaction I am going to support a reduction of aid to those countries who have been blatant in disregarding the concern that we have about the expansion of drug trafficking that emanates from those countries.

Madam Chairman, rather than take up time of the committee, I have a few specific questions which I can submit for the record, which I assume would be most appropriate, rather than taking the time here to ask those questions.

Senator **Kassebaum**. That would be fine. But if there are any that you would like to ask now, please do so.

Senator **Murkowski**. Well, if I may do so, I would ask our witnesses this question.

What in your opinion, based on past experience on this problem with regard to international drug trafficking from countries that we can identify, should we be doing that we are not doing? Should we, indeed, use this threat or even perhaps set the example that we do mean business, that it is not just idle conversation emanating from the Congress with regard to the spread of drug trafficking?

We don't have to go into what it costs us here in the United States because we are all aware not only of the physical costs but of the extremely detrimental effect it has on our society.

I am at the point where I am somewhat frustrated because what we have done I do not think has worked in the manner it was intended, and the process here, under our chairman, is to address the entire Aid Program. My emphasis is on drug eradication.

I would like to know specifically what you recommend that we do to those countries whose attention we just do not seem to be able to get.

Thank you, Madam Chairman.

Mr. **Ink**. First, I am pleased to hear of your concern. Of course, we are already aware of your concern and the concern of a number of other Members of Congress about the drug problem.

It has far more serious consequences for the Western Hemisphere and for the United States than most of the American people realize. It is a very serious subject.

It is also very serious, in my view, for those countries in which drugs are produced.

The narco industry is powerful. In many areas, it is well armed and has good communications equipment. It has airplanes, and it challenges governments for domination of informal sectors of the economy, and it challenges the government for territory in some instances.

So it is a problem of great consequence.

It seems to me that we have the attention of some of those countries, perhaps more than we realize, though certainly not in every instance. They are facing very formidable problems in moving as rapidly as we would like to see them move in the drug area.

Bolivia, for example, has a government which is very much concerned about the drug problem. They have first had to be in a position of being able to go into areas which have been virtually controlled by the narco industry. They have passed legislation since President Paz came into power less than a year ago. They have, as has Peru, undertaken much stronger interdiction actions than in the past. They have begun—and I emphasize the word "begun" eradication.

At this stage the eradication is a relatively small amount, and it remains to be seen, Senator, whether they will be able to achieve the objectives which have been set forth by the Congress and on which we are working.

I was recently in La Paz. I met with the leaders of the Government. I went out into the drug area, into the Chapare region and talked with the campesinos. I talked also with some of the local leadership and with some of the church leaders.

Most of the people in and out of the Government with whom I talked were very much seized with how to move forward. A number of the people outside the Government, Senator, are of the firm opinion that if this Government is not able to achieve economic stability and, thereby, gain the strength to move more vigorously on the drug problem, the future of democratic institutions in Bolivia is dim.

But I would say that if we are not able to help them, what we will find is that we pretty much leave the field to the narco industry. In that event, as I see it, the threat becomes even more serious.

Senator MURKOWSKI. I think your point is well taken, Mr. Ink. The reality, I guess, is that our contribution to drug eradication is less than 1 percent of our aid and that probably is far from adequate. On the other hand, to suggest that by terminating our aid we will substantially aggravate the problem because that would be a clear signal that we felt that the country was not in compliance, that we felt we would be perhaps writing that country off to those who can control its politics and politicians by the tremendous amount of money available under drugs—still, the view of other countries on a country that had fallen to that sorry state of affairs would be focused, if you will, on the responsibility of all the world to try to provide encouragement. I guess it is a matter of judgment and a matter of degree.

My concern and that of many of us is what can we do better or do more. Let me ask you this question.

In which country, in your opinion, do situations exist that we consider contrary to the intent of the condition under which aid has been given—in other words, those that clearly are doing less than a reasonable job of trying to get a handle on international drug trafficking? Which countries would you name that you would say we sincerely question their good intentions?

Mr. INK. The countries that I visited have indicated their good intentions. I think, however, that in several areas, the need for public awareness at the community level and at the family level is sorely lacking. For me to meet with a minister who says in a public statement we have to eradicate and we have to move may not mean very much in terms of actual accomplishment.

Therefore, if you are asking for suggestions, as you did a moment ago, I would argue that we need to move forward at an earlier stage and more broadly than we have generally in the past in helping the church groups, the Government groups, and the health groups to develop an awareness of what narcotics do to the people in those countries. That is what is going to make eradication feasible. That is what is going to make interdiction politically acceptable in these countries.

That would be my principal recommendation.

Senator MURKOWSKI. Let me comment on that, Mr. Ink. I think you are absolutely correct that there needs to be a greater awareness within those countries. The question is how do you get that, because that awareness helps to make those governments more responsible.

Would it help, in your opinion—and I am not here citing Bolivia or Peru—in a country where there is a continuing problem and a continuing concern, if the authorization of aid was, on the recommendation of this committee, held in escrow until such time that we were satisfied that that awareness was taking place within that country? Perhaps that awareness would take place as a consequence of the notoriety of such an action taken by the Congress in saying hey, we don't like what is going on in country A, and we are concerned about it. We are concerned enough to make an appropriation, but we are not going to grant access to the funds until we are satisfied that they are going to do something about the drug problem. We are going to temporarily withhold the aid, and we will hold it in escrow until there is a more positive response from the government of that country to address that problem." How would that work?

Mr. INK. As you know, in Bolivia and Peru, conditions have been placed on the availability of our funds. In Bolivia, the first half of the ESF funds, the first tranche, has reached the point where we believe the conditions have been met by the Bolivian Government and we are anxious to move forward. I think that has provided an incentive.

The second tranche has a requirement which they have not met and are not close to meeting, and there is considerable debate as to how realistic it is. So I would say that progress toward dealing with the eradication of drugs in those critical areas is appropriately a requirement.

I would recommend against setting unrealistic targets, though, because they have tremendous problems to face. Their governments are trying to survive economically. They are trying to stabilize their economies.

In Bolivia, which we talked about, they have reduced their inflation from over 20,000 percent less than a year ago to around 30 percent. But that was at tremendous political cost.

They are taking other actions that are very, very difficult and demanding. So I would caution against the kind of quantitative requirements which may not take into account the problems that they are facing, and which are changing. The fact is they are faced with violence, and are challenged, physically challenged, out in these areas by the narco industry.

Senator **Murkowski**. Madam Chairman, I have several other questions which I will submit for the record, and I have an opening statement which I would like to submit for the record, as if read.

[The opening statement of Senator Murkowski follows:]

OPENING STATEMENT OF SENATOR MURKOWSKI

Madame Chairman, I would like to compliment you on these hearings. Development is a complex subject which does not always receive the thoughtful attention it deserves. These hearings provide an opportunity to go into it in some depth and explore the reasons why it does not always produce as much in the way of results as we would like to see.

I would like to raise one very specific issue which I do not believe has yet been fully discussed here: how we integrate development efforts with our efforts to combat international drugs.

I welcome the increasing emphasis which I have heard on the need for policy reform in aid receiving countries. Public support for aid depends on feeling that it's being used with full coperation from recipient countries to make sure that its effective. I welcome the idea of a "policy dialogue" with receiving governments to see what reforms are needed and how we can best help bring them about—whether it's by using ourleverage, providing greater aid, or whatever method is most effective.

In that regard, no issue is more important than how our aid is helping us deal with drug trafficking. Like terrorism, drugs are an international problem, and like terrorism, they require an international solution.

Congress has authorized a portion of our foreign assistance funds specifically to combat drugs—through both eradication programs and imaginative combinations of drug interdiction and development. I believe the amount—less than one per cent of total aid—is far from adequate. But I believe we may also need to get a little tougher in some cases to make sure receiving countries understand how serious we are about this aspect of our aid. If we are getting strong cooperation from a country on eradicating drugs—this common menace which we face—we should be giving that country strong development cooperation and assistance. If not, perhaps we shouldn't.

I will welcome the chance to discuss this further with the representatives from AID.

I am concerned, Mr. Ink, about the evaluation that in one or another of the countries the first phase has been met adequately in your opinion. I think it would be interesting to have the record reflect an opinion from either Interpol or the U.S. Drug Enforcement

Agency, DEA, whether they feel satisfactory progress has been made.

[The information referred to was deleted.]

Senator **Murkowski**. You are absolutely correct in the fact of the cost to a country, the political reprecussions of cutting aid. But the cost to the United States is also very, very significant.

I am just not satisfied that your optimism is necessarily should by the national and international agencies that see the drugs coming in from some of these countries. would support some type of continued approval of their progress, and perhaps a more realistic assessment of whether that indeed drugs and drug money controls the politics within those countries, and the problem is growing and expanding the wrong way.

To be realistic, we are going to have to seek harsher methods to combat the threat, and one potential method is the aid program.

I have no further statement, Madam Chairman.

Thank you. I appreciate the opportunity that you have afforded me, again, and your accommodation of my schedule.

Senator **Kassebaum**. Thank you, Senator Murkowski.

Mr. Ink, do you and the other witnesses now want to speak on AID project efforts, particularly focus on the implementation and evaluation aspects?

STATEMENT OF DWIGHT INK, ASSISTANT ADMINISTRATOR FOR LATIN AMERICA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. **Ink**. Thank you, Madam Chairman.

I would like to begin by relating the aid problem to what some of us see as a much broader governmentwide problem because I think one in part grows out of the other.

Over a number of years, I have had the opportunity to serve in a number of different assignments, and in each of those assignments, I have, rightly or wrongly, concluded that there were ways of reducing staff, reducing costs of operating the agency. In fact, I closed down one agency for President Reagan.

For the first time, I am now in an agency where such is not a feasible option for better management, for more effective operations. In AID, for the first time, I find an agency which I think has cut as far as it can responsibly cut and still carry out its current objectives.

I would like to tell you a little bit about why I have arrived at that conclusion.

First, the Federal Government, I think most people will agree, has become heavily enmeshed in red tape. We call it a lot of different names, but it boils down to red tape.

The National Academy of Public Administration, in a study in which I participated about two years ago for the Cabinet departments and several of the independent agencies, called "Revitalizing Federal Management: Managers and Their Overburdened Systems—that was its title—described how this labyrinthine process has led, in effect, to process overwhelming substance in departments and agencies throughout the Government.

This system tends to breed technocrats rather than managers. When we do have managers, they tend to distance themselves from the people on whom they should rely for good administrative practices because the administration of government has become so complicated and so technical that a good manager wants to insulate himself or herself from that procedural maze.

So our people in Government tend to live much too much in the world of process, and that stifles common sense. It stifles creativity and initiative.

Further, those complicated systems are subject to manipulation and can mask danger signals behind a thicket of procedures that few managers really have the time or the patience to penetrate effectively. I know I do not.

We ask Federal managers to handle more program work per employee, to handle more dollars per employee, and then we, both the Congress and the executive branch, add, rather than subtract, to the procedural overburden, in most instances.

In my view, these governmentwide agency problems, become much more acute when applied to AID.

When we look at small Missions, located overseas in a foreign land, with different languages, different cultures, different political systems, often different legal systems, very limited levels of institutional capacity, we find that they lack the technical resources that our agencies here in the United States have for dealing with those problems.

A State-side regional office or field office for domestic agencies is in a very different environment. We talk in our domestic programs about diversity. When I was Assistant Secretary of HUD, and when I headed the General Services Administration I talked a great deal about how different San Antonio is from Des Moines, IA, or New York is from Fargo, ND. But these differences are almost minor companed to the diversity of conditions with which our mission people have to cope around the world.

Communications are far more formidable. Our people overseas have to work through other institutions even more than we do here.

There are safety problems. There are a number of Missions in which individuals and their families are subjected to the kinds of safety concerns that we rarely think about here in the United States. Some of them move in armored cars, and have guards at their homes. We have missions where very frequently at night you hear explosions and gunfire.

This is the environment within which our missions are working.

All of these factors in the Federal environment are aggravated, as I see it, in these overseas locations, but everywhere they result in higher costs to the taxpayer and result in less capacity to be responsive to the needs and objectives that Congress and the President have set for these agencies. At times, as I have said, the overcomplexity can actually increase vulnerability to abuse.

We want more businesslike operation; but no business, of course, could function in this kind of imposed environment.

Again, on AID, we have not only the difficulties for our missions to operate more effectively, but the difficult working environment can, at times, blunt the effectiveness of our foreign policy. The ability to respond quickly to country developments is lessened.

I think contract red tape tends to mask the effectiveness of the U.S. free enterprise system. Procedural delays when our contractors try to move forward for example or, when American industry tries to function in these environments tend to hide the true effectiveness of our U.S. free enterprise system.

It is a handicap to some of our U.S. firms, which are trying to deal in an increasingly competitive foreign market.

Yet it seems to me that the expectation of what our missions do, what they accomplish, tends to increase. I think probably I am as guilty of that as anyone.

We expect also, I think, far more political courage from some of the host countries with whom we are working than we find realistic here in the United States.

We expect reform to take place much more rapidly in countries with limited resources than we do in the United States.

Now, one could argue that we don't need as much reform as some of the developing countries, and I would agree with that. But, at the same time, I would say that there are unrealistic expectations of what can and should transpire within a particular period of time. The ability of our missions to help those moves take place is somewhat lessened, it seems to me, by these procedural problems that we are talking about.

Decisions to which a mission director may be able to devote only minutes of study may later be reviewed over and over again by oversight groups—in my bureau, by my people, by me, by the inspector general, by the General Accounting Office, by congressional staff, by members of the press. Whether this is right or wrong, we have to recognize that it is time consuming. It is an added burden on limited staff that you do not find in the private sector although we talk about how people should work in a more businesslike fashion.

Madam Chairman, one thing that I would suggest—and here I am speaking personally, as a manager, not as a spokesperson for the executive branch—is the following, and this is a recommendation that I have made in the past.

I believe that the executive branch and the oversight committees of the Congress would find it worthwhile to get together and review the extent to which we feel that we have to demand of our foreign missions the same kind of operating approaches as we have developed in the United States.

It seems to me that we are trying to adapt and adjust in an overseas location, in a foreign environment, procedures and processes which have evolved over the years for application in the United States. They don't fit very well in the United States; they fit even less well overseas.

There are some basic standards that I think we would have to insist on; but with those basic standards, it seems to me that we can in several areas design approaches and systems, that are much more simple, much less complicated, and which permit much more rapid response than those we now have.

We have done this sort of thing here in this country with our public corporations, which are also using tax moneys, which are also subject to congressional oversight, and no one yet has been able to prove to me that it is not worth trying in an overseas environment. I cannot promise what might come out of that redesign effects, but I think it is worth trying.

Finally, I would like to say that I have found the AID staff unusually creative, unusually innovative, and to have a high percentage of risk takers, particularly when they are out in the missions. When AID staff come to Washington, they behave like me and everybody else, because they are then working in a Washington environment.

Out in the missions, often they can do all kinds of things. Then, of course, we scold them a little bit because we do not think they have followed all of the procedures they should have.

But I would say that we do need in AID an increased emphasis on management. I am very pleased, and one of the reasons I came with the agency is because the Administrator, Peter McPherson, and Jay Morris have been for the last several years moving in that direction, and I thought it would be interesting to be a part of that process. I think it is very important.

I would just close by saying that I agree with the cliche that systems do not manage. People do.

Senator **KASSEBAUM**. Thank you very much, Mr. Ink.

I regret to say there is a vote on right now, which, unfortunately, comes at a bad time.

I think that before we continue I ought to temporarily recess this hearing so that I can go and vote.

Do any of the other panelists have opening comments to make?

Mr. **INK**. Each of the three has a short comment which I would appreciate their having the opportunity to make.

Senator **KASSEBAUM**. Fine.

I will be right back.

[A brief recess was taken.]

Senator **KASSEBAUM**. My apologies again. I hope that will take care of the voting for the afternoon.

Who would like to speak next?

Mr. **INK**. I think Mr. Malcolm Butler will speak next. His area of focus is implementation.

Senator **KASSEBAUM**. Thank you.

Mr. Butler.

STATEMENT OF MALCOLM BUTLER, DEPUTY ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN REGION, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. **BUTLER**. Madam Chairman, we all appreciate this opportunity to be here.

The subject of the sessions, of course, is management, and today we are focusing on implementation. So I would like to address just a few remarks to the question of how we manage the implementation process.

Implementation involves a great number of documents and processes and some of the thickets that Mr. Ink was referring to. I will not focus on those. We can, of course, get into those in questions, and I know that both Mr. Rollis and Mr. North will be dealing with some of these matters.

What I would like to do is give you a flavor of what it is like for a field manager. I have been a director of three of our missions overseas, and now I am Mr. Ink's deputy and deal with all our activities in Latin America and the Caribbean.

I would like to look at both the experience of a mission director and his management of implementation and also at the bureau and how the bureau approaches the management of the implementation process. That is how I would like to spend my few minutes.

Yesterday you focused on the question of design. I am sure that you heard something which is a phrase which is very popular, which is that the first step to good implementation is good design. I would agree with that thoroughly.

But I think it falls short in terms of capturing what it takes to manage implementation for one very important reason, which is that good implementation management requires midcourse corrections.

Indeed, the literature on the subject by academics and practitioners alike makes clear that it is those midcourse corrections that frequently, more frequently than not, spell the difference between a successful project and an unsuccessful one.

For that reason, the watchword that we have—and I am sure you have also heard it many times in the course of these hearings—is decentralization. That is the key, both to the mission director's point of view and to the bureau's point of view, but particularly the point of view that Washington has toward its missions.

Our mission directors are on the scene. That is why we believe that AID has certain unique advantages over some of the other development institutions. We insist that our people on the scene—who are closest to the action, who are closest to the development needs of the country, who are closest to the social and political dynamics of the country—are the people who can best make the fine-tuning decisions which frequently spell the difference between success and failure in a project.

We pick people, as Mr. Ink pointed out, people who are risk takers, people who are prepared to exercise authority, people who are prepared to be held accountable for the exercise of that authority. We think that you can discuss theories in Washington, we think that you can discuss policies in Washington, but it is in the field where the rubber hits the road—to use a phrase that I remember from an ad recently—which is where it all has to be put together. That is where the decisions have to be taken within a policy environment which we, in Washington, are very concerned with, but within a country framework where we have to apply those policies and guidance that the mission directors get from Washington.

There is another important reason, besides being closest to the action, that we want to see our mission directors be the sort of people and have the sort of authority that Mr. Ink has noted.

It is really in the field, in my own opinion, where we get the opportunity to magnify the impact of the resources we apply. Through our policy leverage, we are able to go with a certain project into a sector and, through the policy dialogue hopefully change the circumstances in which the entire sector works—not just the use of money that goes into our project, but the dynamics of the entire sector, the policy framework. That is one way of magnifying the impact of our resources.

Another important way to do that is to insure that we have good coordination with other donors, so that as we, with our resident missions, identify problems and move to solve them, with other donors. Other donors, of course, go in with their own agendas, which is understandable. But, at the same time, we, with I think in many circumstances a greater understanding of the problems in the country, are able to present a strong case to mobilize donors to focus on problems in the same way. In this way, we increase the ability to alter the policy framework, where, that is required, or to focus resources on key constraints.

From the mission director's perspective, what are the tools that he has available to him in managing implementation?

I think the most important thing is the periodic review of his projects. We urge each mission to set up its own framework, but we have minimum standards that we require for that framework. It must focus on the progress of the project, it must focus on effectiveness, and it must focus on the danger signals that Mr. Ink referred to. What do that we see that is not going quite right? What is it that we see we can adjust to capitalize on the resources that we are putting in to make sure that that project increases in effectiveness?

A couple of the models, a couple of the cases that you have selected, offer some opportunities to discuss this, and I assume we will do that later on.

The mission director also has control of the personnel management within the mission, and we assume that he will be constantly looking at, and indeed has no choice but to look at under the current scarcity of resources, how to accomplish as much or even more with fewer personnel resources and in some cases fewer financial resources.

Another thing that the mission director draws on, which is very important, is his day to day experience. This is sort of a gut instinct that does not lend itself to systematic analysis. By his contacts with the private sector, through his contact with government officials, with ministers and project level people in the counterpart government, through his visits to projects, through his ability to go out and walk in the fields with the campesinos who are the beneficiaries of those projects, he develops instinctive reactions.

I guess I should not describe them as simply "gut reactions." They are in fact very informed; they are very professional. They are the sort of reactions that someone who has been working and who has distinguished himself in the development business over a period of years, as our mission directors have, must develop. They are very sound instincts.

So, the Mission Director's day-to-day experience is another very important management aspect for the mission director.

Finally—and I will not go into great detail on this because Mr. North will—he has access to the evaluations which we carry out periodically ourselves as well as the evaluations which are carried out by the GAO, by AID's own inspector general, and indeed by the World Bank and other donors, because we learn from one another.

These evaluations may be of projects for which the mission director is directly responsible. They may also, however, be projects from the other side of the world, because one of Mr. North's responsibilities is to see that we do learn from one another, so that a lesson learned in Indonesia is not lost on the mission director in Peru as he approaches a similar problem.

Let me now turn briefly to the responsibilities of managing implementation from the Washington perspective.

Washington, in decentralized system, of course cannot manage projects. We depend on our missions to manage projects. We manage programs, we manage portfolios, we try to have a good idea of what is going on, and more specifically we want to see to it that the policy emphases of the Administrator are being carried out. We want to see to it that any new policies which the agency decides to emphasize are picked up and aggressively moved forward. We want to make sure that the portfolios are running smoothly.

We have an implementation schedule for each project and an overall schedule from each mission. We have reviews in Washington to make sure that things are staying on schedule, and, again, to look for those danger signals: If not, why not? Do we need to take corrective action? Do we need to make some adjustments in the strategy for the country, or in the program? Or are we on track and is this just an aberration which we need to deal with by various specific, corrective measures?

So, Madam Chairman, what we do from Washington is monitor systems rather than events.

We want to make sure that the mission director is on top of his portfolio, not by being on top of that portfolio ourselves, but by having an overview of the mission's management task.

We do that through systems which we have at our disposal.

Most important among them is what we call the annual "action plan."

The action plan is a chance for the mission to come in, once a year, to review progress in what the mission hoped to achieve last year, to give us their projections of what they hope to achieve next year, to propose to us how they intend to reach those objectives within the strategy which we agree on for the country, and, finally, to let us know what they believe they need in the way of resources—personnel resources and financial resources—to carry out the action plan which they are proposing to us.

We are in the midst of our review of those action plans right now, and I can assure you that they are very lively, spirited exchanges. I think they lead to greater understanding. They lead to confidence on the part of the mission director that he is carrying out broad guidance and confidence on the part of those of us here in Washington that we do, in fact, have a solid basis for communication with the mission director as we watch the portfolio unfold.

We also have a semiannual portfolio review, which is a critial process in finding danger signals and taking corrective action.

I think it is very important, however, that we not overproceduralize our relationships with the missions.

As Mr. Ink has pointed out, the government, if anything, practices procedural overkill, and we do not want to stifle initiative, we do not want to stifle creativity. But there is a certain amount of understanding which is needed up front in order for us to effectively decentralize and turn loose the reins so that the people on the ground can do their work.

Let me note, finally, that we also have visits to the mission. One is a formal mission assessment which we carry out every 3 years, in which a team will go out and look at the operations of the mission.

But at least once every year, on the instructions of the Administrator, either Mr. Ink or I will visit each mission to get a fuller sense for it, to get a feel for it. This is a less formal procedure than a mission assessment.

I believe that Mr. Ink and I will be doing it far more than once a year, based on how this year is unfolding. It is very important to our sense of how we are proceeding on management.

Mr. **Ink**. Pardon me. We visit them many times, but the assessment is an indepth kind of review.

Mr. **Butler**. Yes.

Finally, we in Washington also look at the evaluations done by ourselves, by the GAO, by the IG. We do that in Washington, not at the same microlevel to make project adjustments, unless there is a danger signal to which we need to pay particular attention.

Finally, we also have our experience that we gain through our visits, that we gain by talking to members of the U.S. private sector who may have been out in the country, that we gain by talking to ministers or other government officials from the countries who may be here visiting, that we gain by talking to our own staff at various levels when they are in Washington.

Overall, this process is guided by certain key principles. I would cite among them, agility. We want people not to be bound unnecessarily by the regulations and by the regulatory framework in which we have to work. But at the same time we have to have accountability. That is to say, we want people who will be prepared to justify the decisions they have made within that framework.

Finally, there is effectiveness. We want to make sure that what is being done out there works. That is the bottom line that I think is essential to our decentralized approach to the management of implementation.

Thank you.

Senator **Kassebaum**. Thank you very much.

Mr. **Ink**. Next you will hear from Mr. Rollis, who will focus on contracting.

Senator **Kassebaum**. Mr. Rollis.

STATEMENT OF THOMAS ROLLIS, ASSISTANT TO THE ADMINISTRATOR FOR MANAGEMENT, AGENCY FOR INTERNATIONAL DEVELOPMENT, ACCOMPANIED BY JOHN F. OWENS, PROCUREMENT EXECUTIVE, ASSOCIATE ASSISTANT TO THE ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT; AND ROBERT HALLIGAN, DIRECTOR, OFFICE OF ACQUISITION AND ASSISTANCE MANAGEMENT, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. **Rollis**. Good afternoon.

I would like to talk about two areas in contracting that have been misunderstood.

The Federal contracting system features an internal inconsistency between the demands for fairness, for due process toward the contracting community, and the Agency's program need.

We administer the Federal system, and it is a competitive system. Our analysis of competitive actions out of AID for the last year, which was submitted to Congress, indicates that approximately 80 percent of our contracts are competitively bid.

While we administer the Federal system—and I, certainly, along with my colleagues, are willing to defend AID's administration of that system—as Dwight Ink mentioned, I am not willing to defend the Federal contracting system.

I come from a background of the private sector, having 10 years with General Motors. The normal way a contract relationship goes in the private sector is, as Dwight mentioned, very different from what we go through in highly competitive contracting.

For instance, a private firm that has a janitorial service, that is rendering adequate service at an average price, would normally be continued the following year with the buyer and the seller sitting down together to discuss the latest changes in minimum wage, inflation effects on supplies, and that type of thing.

If the buyer remains satisfied with those services and with the price, it would continue the contract. If, on the other hand, the buyer could no longer afford that degree of service, they would negotiate to perhaps clean the offices once a day instead of twice, or whatever.

If the buyer suspected that there was another supplier in town, equally reliable, that perhaps could offer a lower price, then a competitive bid would be let. But the investigation of the two bidders, or three, or four, would result in the buyer purchasing without exclusive regard to price alone, but a combination of quality and service.

That is not possible in the Federal Government.

First, in the interest of fairness to the contracting community, it is necessary to recompete that work regardless of the satisfaction of the buyer. It is necessary to go with the lowest bidder, after some qualification. Other things that are not directly related to the capacity of the contractor to perform are not allowed as factors in the buyer's decision.

In this morning's Washington Post, there is an article which I have no idea whether or not its facts are correct. But if we take it as stated, what, apparently, has happened is that a contract has been let to provide drug abuse counseling services to the District Government, which operates under the same contracting system that we do.

The allegation is made—and this contract is for $600,000—that the president of the company that has now been awarded the contract to conduct these school drug abuse programs was in the same apartment as another who died in 1983, of a heavy drug overdose, including barbituates, alcohol, and cocaine. This is objected to by a city councilman on the grounds that it is not appropriate.

As a matter of fact, under normal contracting procedures, the contracting officer appropriately awarded this contract.

In other words, those things that go into a review of the appropriateness of the contractor only had to do with his capability to provide this particular service—his financial capacity or, in fact, conviction of a crime related to the capability of carrying out the contract.

That is the concept of due process in Government contracting.

In the private sector, if the individuals associated with the firm were in any way objectionable, the private sector would just move on to some other firm. But we are not allowed to do that.

It is a serious business to debar a contractor. The appeal rights of a contractor who feels discriminated against has many avenues and a sympathetic administrative and judicial system to challenge that.

In fact, the contracting process requires, in large part, a face value acceptance of the bidder certification of the types of services, the level, the quality, and just about everything except financial capacity.

Even if we were to identify firms we did not wish to do business with due to bad performance and, in essence, we were allowed to freely restrict them from bidding, you still have the problem of variable performance within the same firm. This is especially true in technical services. It ranges not merely from small firms that are operating from a Rolodex, but to major firms, Big Eight accounting firms, that will have variable performance, depending upon the team leader that they choose and the effort within the organization to perform the task that we contract for.

Now there is a problem of the thinly capitalized consulting firms that operate from a Rolodex. This is especially a problem with these firms that have few regular employees and a large number who have offered their services on an occasional basis.

The reason that we contract with these firms, and the reason that we contract generally is that we cannot afford to have highly specialized health specialists, education specialists, et cetera, et cetera, on our payroll, waiting for our extensive program process to produce a project that they would work on. The consulting firms have the same problems we do.

Consequently, they must keep their overhead low and must have available people who are not regular employees.

The question of performance is often raised as a matter of either you have performance standards or you don't. In fact, every contract we write has performance standards.

The material previously submitted has in it our contract process. It is very different for, say, commodities—that is, the purchase of pencils, widgets, whatever—and much simpler. Performance there is to produce something to a rather simple specification and to deliver it when we ask for it.

That is almost totally a price competition.

The other major area of contracting and the one that I think the committee is most interested in is that of contracting for technical services.

Technical services is a product of the design that was talked about before, that takes literally years from conception to the writing of a scope of work. The scope of work is key.

Criticism has been levied by GAO that our scopes are too loosely drawn, that it is impossible for either the contractor, the project officer, or the respective supervisors to understand what is to be done—not whether it is to be done.

That statement is to some extent true. But, there, again, it is a matter of degree as to the amount of specificity that can go into a scope of work.

We offer a 2 weeks long course called project implementation.

I will not ask for your permission to put it into the record for fear of bloating the costs of the committee to the point where they cannot be sustained. But we have put over 1,200 of our project officers through this course.

It costs about $38,000 for a couple of weeks to teach implementation to our project officers.

These are not contract officers. The course is designed to teach the project officer how to ask a contract officer in specific detail what they want, taking into account the timeframes, the staging of the various contracts that make up our complicated projects abroad, how to clearly do the project implementation letter and the project implementation order that flows from that.

There are two extremes in contracting for technical services that have been looked at in terms of performance versus not enough performance.

The one that is credited with performance contracting is basically a fixed price contract.

A fixed price contract asks for a bid on a stated work product that is to be delivered in stages, perhaps, but a final product at the end for a fixed price, which normally includes a fee.

This is a good mechanism when, in fact, your product is easily defined and is not subject to wide quality variants. Normally, technical assistance is not that way.

The other extreme would be cost reimbursement in which the contracting agency, AID, asks for a set of skills and a level of effort to be devoted to an objective or a series of subobjectives, and pays as the effort is incurred.

My direct experience in contracting is limited to a major financial system development contract.

We conceptualized that in 1977, and the contract has been completed this year, and we are bringing that system up over the next year as our own internal capacity allows.

I will tell you the problems that we faced in administering a fixed price contract and then go through the problems the State Department faced in doing the same thing at the same time with a cost reimbursable contract.

In a fixed price contract, the scope is everything. Anything that is not in there, that is not thought of ahead of time, is subject to a change order, additional negotiation and additional cost.

In a fixed price contract, you cannot direct the contractor to stop working so hard on this aspect and work harder on that aspect because the performance is at the option of the contractor. The minute you start directing that contractor to do something different, they have the right to stop work or to issue a change order to charge additional money.

In a development contract for a financial system, as the contractor went forward and found that what was in the design either would not work or would work less efficiently, they would change that, or, as we found in the testing, that the product delivered would not perform, we would issue a notice that it did not perform.

Well, over time, that contract had 1,600 of these deficiency notices that we issued for things that did not work.

The contractor ceased work and launched a claim that eventually reached $10 million on what was originally a $5 million project. In other words, it was the $5.4 million plus $10 million.

At that point, in trying to enforce this contract, the problems that we found—and these are reflected elsewhere in contracts of less complexity—were that the contractor will charge that the design was deficient and that all of the changes that occurred were due to AID not having an appropriate design for them to implement.

We had a full team of lawyers to refute these claims.

We found that in research with GAO and with the courts, that if we were to terminate that contract for cause, although we had the paper right to rebid it and charge the original contractor for the additional cost, that in fact, no software development contract on a fixed price termination for cause had ever been upheld.

Instead of that, it inevitably changed into a cancellation, or termination for the convenience of the government, which just converts it to a cost type contract, where you pay them everything they spent plus cancellation charges. By the way, we did settle these claims for considerably less than they asked for and we got the system.

The State Department decided that it would go the other way, with a cost reimbursable contract. In a cost reimbursable contract, what you do is to put a re-up provision; that is, you pay for a level of effort with stated milestones, and then, at the end of 1 year, 2 years, 3 years, or 4 years, you have a review, and if you are unsatisfied with the performance to date, the contract just expires and you start over.

The State experience was similar to ours in that the contractor produced less and less. Just this year they terminated that contract, and are now going back to fixed price for the pieces that are left.

The point of this is that the two methods both have problems and have different areas of appropriateness. The less definable the output, inherently, the more probable that a cost reimbursable contract should be used with safeguards. The more definitive the work—not how well it is written, but how definitive the output is—the more likely it should be a fixed price contract.

How do we enforce contract performance abroad?

What about bait and switch?

The problems in operating abroad, as Mr. Ink and Mr. Butler have laid out, are compounded from those found in Washington. The problems there are that we have the ability to write the contract firmly and in many cases we have. Our 2 week implementation course is designed to reinforce the ability to write those contracts firmly.

The difficulty there is that the remedies for nonperformance are very difficult and often very hard on the program itself.

We normally do specify in a level of effort contract the key officer personnel, who may be just the project officer or may also extend to some specific technicians.

We always have a clause where the naming of key personnel is subject to our concurrence.

What we do is to refuse to concur initially with the proposed key personnel and then bargain with the provider to attempt to obtain the kind of people whom we originally were provided in the proposal.

If that is not as successful as a project officer wishes, then he is faced with the problem of termination for convenience.

If that occurs, then the competitive process of over 200 days must occur or, even if an emergency sole source type mechanism is authorized, that mission has the problem of identifying back in the United States a similar contractor.If that is done quickly and well, you still have the problem that the people who are to replace the original people have to have an amount of time to pack their gear and go overseas. All this inevitably takes time.

I appreciate the opportunity to go more deeply into our business with you and I appreciate the time that you have given us today.

Thank you.

Senator **Kassebaum**. Thank you.

Mr. Ink. Next, Mr. Haven North will speak to evaluation.

Senator **Kassebaum**. Mr. North.

STATEMENT OF WILLIAM HAVEN NORTH, ASSOCIATE ASSISTANT ADMINISTRATOR, CENTER FOR DEVELOPMENT INFORMATION AND EVALUATION

Mr. **North**. Thank you, Madam Chairman.

I will try to be very quick.

My function in AID is as the head of the Center for Development Information and Evaluation, which is within the Bureau of Program and Policy Coordination.

I would like to make three points about our evaluation and development information activities.

First, in order to understand AID's evaluation system, it is necessary to distinguish broadly between those project evaluations administered by our bureaus and missions and those impact and policy evaluations carried out centrally by my office.

The majority of AID's evaluation work is decentralized, in keeping with the agency's desire to link evaluation with project management.

Each bureau and overseas mission is responsible for the evaluation of its own projects. These evaluations are primarily midcourse evaluations of active projects. They are essential management tools for those directly involved in overseeing these projects.

They provide the managers with a means for assessing a project's objectives, its technology, its management, its potential impact and an opportunity to assess the influence of external factors, and, finally, the prospects for long-term sustainability.

As you can appreciate, few projects proceed exactly as planned. We cannot know all of the future and all of the consequences.

Therefore, most projects need some course correction as they progress.

Projects evaluations are, in a sense, part of a continuing design that is necessary to accommodate to changing circumstances and new understandings.

These project evaluations can lead to a confirmation that the project is soundly designed. They can lead to recommendations that the project should be redesigned, moderately or very sharply. Or they can lead to a recommendation that the project should be terminated.

It is my view that we have a basically sound evaluation system. I know there have been some comments about the frankness of some of our reports. In recent review of some 300 evaluations, a colleague said, perhaps a little bit more flamboyantly than appropriate, that these 300 reports are "brutally self-critical, seldom self-conscious, almost always honest, and, as analytical, as feasible."

Perhaps the language is a little extreme; but I think the basic point was that he felt these reports were quite direct and that they were having an impact on project implementation.

This is not to say that we do not have problems in the evaluation process, in the quality of the evaluations. Certainly our aim is to improve them.

My second point is this.

In 1983, AID combined its impact and policy evaluations, development information and statistical resources into the Center of which I am in charge in the Bureau of Program and Policy Coordination.

The linking of evaluation and development information is strengthening AID's capacity to analyze, disseminate, and use evaluation findings and other data in project planning and implementation.

The Center is enabling AID and developing country institutions to draw more directly and efficiently on the full range of AID's experience.

The Center's staff, for example, responds to several thousand inquiries each year on a wide range of project, technical, and statistical topics. They provide numerous syntheses of AID and other donor experience for AID's staff and contractors in Washington and overseas.

I should add that the Center also serves to support the evaluation system of the agency, the decentralized system which I just mentioned. We have, for example, issued guidelines for evaluating commodity import programs and similar nonproject assistance, an area which in the past had not been actively evaluated.

We will be issuing shortly new guidelines for evaluating projects, bringing up to date the instructions to our staff on how to proceed with these project evaluations.

We provide technical services on the data collection and analysis which is important to establish the baselines for assessing policy changes, for example.

And, I think most importantly, and I want to emphasize this, we are promoting collaborative evaluations with our developing country counterparts.

We cannot accomplish a great deal unless we do it jointly with those who are managing the projects in the developing countries themselves. Therefore, we have put a great deal of emphasis on the process of evaluation as a joint enterprise with our developing country counterparts. This process is perhaps more important than the reports that we often emphasize.

My third and final point is about project impact evaluations. These are retrospective assessments, which provide us insights on the contribution of our programs to development. They also provide lessons of experience that can be applied in shaping our policies and future project designs.

Madam Chairman, one example of these impact evaluations I think would be particularly interesting to you. We are now in the process of an impact evaluation series on higher agricultural education. This is one of the areas, as you know, that is especially noteworthy in AID's contributions to international development over many years.

We have been reviewing the results of AID's projects in developing agricultural colleges, faculties of agriculture, and related research and extension, initially in Africa and later in Asia and Latin America.

These projects have been notable in Africa for training the agricultural specialists who now provide professional leadership in agricultural development.

At the time of independence, as you appreciate, there were very few Africans who had advanced training in agriculture. The development of these institutions, with the assitance of American universities, for example, in Malawi, Ethiopia, Sierra Leone, Morocco, Tanzania, and Nigeria, has, of course, been a long-term process. But it certainly has been a crucial first step in laying the foundation for agricultural development in Africa.

As part of this series, we just sent an impact evaluation team to Nigeria, where AID assisted in the development of the faculties of agriculture in three universities. The team has just returned and is completing its report now.

The team members told me they were impressed with the work, particularly at Ahmadu Bello University, in veterinary medicine and general agriculture and with what the university is doing to integrate education, research and extension.

You are familiar, of course, with the fact that Kansas State had a very major role in the creation of the veterinary school and the agricultural college and has made a very valuable contribution. The team came back reporting with a great deal of enthusiasm about the relationships with the Kansas State staff and that these relationships are continuing, and that the valuable work being done in Nigeria is, in large measure, a result of these relationships.

This report, along with those from the other countries, is going to be very helpful to us in rethinking what the strategy, the policy, should be toward helping with agricultural education and research, particularly in Africa. At the same time, we hope to learn from other parts of the world, such as India, Brazil, and other contries.

That is one example of a project impact study underway. We will be happy to share it with you when we complete it in the next few months.

I should add that we have done similar types of studies in the field of irrigation, agricultural services, education, and these reports are here if anyone would like to review them. They have been made available to the Congress to review our agency's experience.

I should also add that we have just completed a report on narcotics control and development assistance. It reviews our experience and other donor experience in Bolivia, Peru, Thailand, Pakistan, and Turkey. I think it is helpful in understanding some of the issues and what works and what does not work in narcotics control programs.

To wind up, let me say, that evaluation and development information in a sense complete the loop—maybe that is why I am at the end of the line, here—in AID's planning and implementation systems. They provide the feedback into our programming that is important for to improving the quality of AID programs.

Thank you.

Senator KASSEBAUM. Thank you very much.

I thought it might be useful to take a couple of specific projects and go through them, because I think in many ways they will touch on some of the points you have raised, and perhaps helps us better understand how things work in the real practicality of the world.

I would like to start with the health sector I project in Honduras, which, as I understand it, includes 20 different activities, which are broadly grouped into two categories: health services and systems support.

The overall goal of the project is institution building within the Honduran Ministry of Health.

The cost of the project was estimated to be $26.7 million, which I understand is to be increased to about $31 million. It was initiated as a 4-year program in 1980, to be concluded in 1984, and now is extended to 1987.

I would like to start with the contracting issues. We will not get into the design and how it all came about. But let me ask a couple of questions on the contracting of this project.

How does AID encourage potential contractors in a project? Do you go out and solicit contractors that you know would have an interest in this area, or do you just place a notice in the "Commerce Business Daily? '

How does it work?

Mr. ROLLIS. Well, the basic notification is the "Commerce Business Daily."

Senator KASSEBAUM. Are you required to place a notice there?

Mr. ROLLIS. Yes, in this case.

In addition to that, we keep a register of contractors and universities that have worked on these types of projects in the past, and will do a notice to all of those who have expressed an interest.

Senator KASSEBAUM. Mr. Rollis, would you mind moving the microphone a bit closer, please.

Mr. ROLLIS. Also mail notices to those contractors who have expressed an interest in this area to us before.

Senator KASSEBAUM. In health, or Honduras?

Mr. ROLLIS. It would be in health, overseas.

Senator KASSEBAUM. Some have suggested that AID contracting is very much a closed shop, belonging to a rather tight network of former AID employees and a few chosen contracting and consulting firms.

Would you have any comments on this, and how much price competition is involved in the letting of a contract.

Mr. ROLLIS. There are a number of exemployees who are employed by our contractor community, because economic development is a rather narrow field. Experience with AID counts with them when they hire people. Frankly, there is nothing wrong with that.

As far as firms being locked in and being repetitive winners of contracts, we have attempted to open this field more and have been very successful in the Gray amendment area, which implies that new firms have been brought into our contracting expertise.

Senator KASSEBAUM. Do you mean the set-aside provisions?

Mr. Rollis. Yes.

Senator KASSEBAUM. Well, of course, there are many who believe that set-aside is actually a congressional restraint that has not worked as well or been as effective as they would wish. I have heard that during the course of the testimony in the last several days.

Mr. ROLLIS. It is an additional constraint on the contracting process.

But, in regard to your question as to whether or not we have the same firms doing business, it is proof that we have new firms doing business.

We also have prohibited the use of AID-specific experience as a ranking criteria. However, we will never do away with development experience as a criteria for selection, so that the evaluation panel, when it looks at a firm that has done business overseas in the development area, is going to score very high on relevant experience.

On the other hand, I think it would seem that relevant experience in the area, working overseas, is a criterion that the taxpayer would want in performing development of this nature.

Senator KASSEBAUM. How much do you involve the for-profit sector in AID's contracting awards? Do you consider the possibilities for implementing projects through joint ventures with the for-profit sector?

Mr. ROLLIS. Yes, we do.

Jack Owens is here, who is our chief procurement executive.

I would like to have him speak to this issue.

We do contract with for-profit firms, and we do contract for joint ventures.

Jack, would you like to add something to this?

Mr. OWENS. Madam Chairman, our normal practice is to publicize contract requirements. In that way, both nonprofit and profit-making organizations get a chance to see what we are doing in advance. That may represent individual companies or organizations, either by themselves or in joint ventures. As long as they are able to meet the requirements that we have set, then we have no problem with considering them for award of contract.

Senator KASSEBAUM. Have you noticed an increase over a period of time in the number of for-profit contracts or has that basically not been something that has worked as well as it might?

Is there any trend?

Mr. OWENS. With respect to resources, we, of course, solicit for-profits as well as organizations that are organized for a specific subject matter, such as population, health, and agriculture.

My own personal impression is that in the competitive area, most of the firms that we are dealing with would be profitmaking. Some of them may be recently organized, or may have been organized to do a specific technical task, but they would be considered private sector, profitmaking organizations.

Now, to the extent that we have statistics on competition, those statistics are running in the 70-percentage area for procurements that are competible. What this means is that we take out of that base all contracts that are set-aside for 8(a). The remaining, then, are subject to competition, and are in that category of about 70-percent competitive.

This was the first rack-up we had done under the Competition in Contracting Act, and we were very pleased with the results.

Now, this includes an entire spectrum of procurements—commodities, purchase orders, contracts with individuals, and personal service contracts, everything we do. It is across the board.

So, when you say private sector, the private sector would be part of that. But we also obtain competition to the extent practicable from nonprofit organizations.

Senator KASSEBAUM. Mr. Ink, do you have a further comment?

Mr. INK. If I could add something on the subject of competition. It has been my experience over the years that the greatest enemy of competition is complicated processes. The kind of procurement regulations that we have in the Federal Government tend to dampen competition.

It is a disincentive to a manager to go through the complex competitive route. It has an unfortunate built-in incentive to end-run the system and go sole source.

So this is a government-wide problem. AID has some waiver authorities, but the problem is built into our basic government-wide system.

A mission director who follows the procedures and advertises a $200,000 project in the "Commerce Business Daily may end up with a number of proposals from firms that the mission director has never heard of, and it is very, very difficult to establish whether the low-cost firm has the capacity or the quality to handle that particular bit of procurement.

Then, the mission director finds himself in something of a quandary.

Informal or limited competition is something that I would like to urge be given much more weight and used much more widely in the Federal Government. We have found that, where that is true, those earlier agencies, such as NASA, such as the Atomic Energy Commission, that up until recently, at least, were regarded 20 or 30 years ago as outstanding examples of good management, had that kind of flexibility.

Senator KASSEBAUM. I would like to move on with this particular project for a moment beyond contracting, because it is a long-term project and took some time to get off the ground. I think it was between a year or a year and a half from the time the project paper was signed to the beginning of implementation.

Part of the problem was that there was a change of government in Honduras and a change in the AID team within a couple of months, I believe, after the project was signed.

So there were these external problems, and some of them certainly were beyond your control.

But over the past couple of days of hearings, we have found that problems created by external factors seem to be more the rule than the exception. Since that seems to be the case, this example may not be that unusual. Is this case typical of the time it takes to begin implementation of an AID project?

Mr. INK. Madam Chairman, I don't think this is typical. On the other hand, a number of the problems that were encountered are commonly encountered.

I think you had a greater sequence of problems here, perhaps, than usual. I would think, in looking at the project over the last day—as you know, these projects are administered out in the mission—therefore, we are not involved in the details. We did ask for some information on the project. From what came in, and I think one of the evaluations indicated, it probably was somewhat more complex than would have been desirable in its design. It had more components than might have been desirable, and there probably was some overestimating of the institutional capacity of the host country institutions to carry out that project.

This is reflected in the contracting area, because, initially, the intent was to utilize host country contracting for this project.

Senator KASSEBAUM. Pardon me, but do you mean Hondurans?

Mr. INK. Yes, the Honduran Government was to handle the contracting.

Now this probably was too large, too complicated a project to make that a desirable course of action, which is easy for me to say, several years later, having seen what happened. Had I been on the spot, I don't know. I might have made the same decision because host-country contracting is usually desirable. It is desirable to use our projects to help these countries develop and increase their own institutional capacity in contracting and other management areas.

So I can clearly see the motivation for going that route. But it did not prove to be feasible. Consequently, it was then handled through direct contracting, most of it, in the United States, through the mission. That did create a substantial delay.

This happens on occasion. It is not typical that we try one route and then go another route, but it did occur in this instance.

Senator KASSEBAUM. Testimony that we have heard, particularly yesterday, suggests that there is a real problem with continuity.

Now I don't know why the AID personnel were transferred at that particular juncture. It may have just been the normal time for transfers. But why can't AID personnel be assigned to a country for a longer period of time than they are now?

We heard in the opening day testimony that personnel are being assigned for a bit longer, but it is not really significantly longer, particularly when you consider long-term projects like this.

Mr. **Rollis**. Well, I think on opening day they talked about the overseas project officers going up from an average term of 31 months to an average term of 39 months.

We, for years, have followed a policy that basically has three-quarters of our Foreign Service overseas and one-quarter over here, in Washington. The rotation, then, is an average of 9 years overseas and 3 years here. But the tour that they take as a commitment is generally two and two—that is, two 2-year terms.

Now, if the people involved were at the end of their 4-year term, it would be a normal thing for them to rotate. We have found that our mission leadership has a much longer term than that, over 40 months. And it is hoped that the mission leadership longer continuity would make up for the fact that our midlevel technicians are rotating on that 4-year basis.

Mr. **Ink**. And in this project, as you probably are aware, we have what any mission faces in a major project—not only the continuity of the project officer, but there is a continuity problem in terms of other people on the project team, which is affected by the rotation policy, continuity in the host country—you mentioned the change in government as a factor, for example. That certainly is true. That did not stop the project, but it certainly slowed down the momentum. There is no question about that.

That, however, is a part of the difficult environment within which missions must operate.

There is not only a frequent change in government, but, as here in this country, we deal with changes in ministers, and changes in key personnel in these ministries. That becomes generally more of a problem in these smaller developing countries than it is here because they don't have the depth, the resources, or the level of backup expertise that we are accustomed to here in the United States.

Senator **Kassebaum**. Mr. Butler, you have been a mission director and you spoke of decentralization.

I would like to ask you this. Isn't it true, though, in the reality of how things work, that mission directors and those out in the field are very susceptible to what Washington is thinking? Also, isn't there some coordination from the Ambassador, who is often very involved in the AID mission.

Is that not right? I suppose it depends on the persons involved.

Mr. **Butler**. Let me answer those two questions in order.

The first question is this: is the mission director in fact subject to influences from Washington? The answer is absolutely "Yes."

It is very important that a mission director understand that this Administrator is interested in the private sector, and that sort of influence is something that we want him to be susceptible to. It is important for him to know that we are interested in policy dialog and making sure that the economic policy framework is correct. That influence is something we want him to be very much susceptible to.

It is not true that he is susceptible to Washington influences, except in very rare circumstances, when there are problems in a project. We don't want to say no, don't do it that way, do it this way. We are very reluctant to second-guess a mission director under those circumstances. When it comes to whether you are going to ask the X, Y, or Z unit of the ministry of health to increase its budget in order to support this or that project versus this or that activity, there would be very rare circumstances under which we would get into that domain, which is properly the mission director's.

As far as the influence of the ambassador is concerned, he, of course, is the President's representative in country and does have an important role in the AID Program when he chooses to exercise it. But it is my experience, as a mission director and also as someone watching the LAC Bureau from Washington, that ambassadors exercise that role only to make sure a program fits in with our overall foreign policy objectives of in the given country. I think that is appropriate.

I do not find that an ambassador is very anxious to get into the details of a project because he simply, in most cases, does not have either the staff or the personal experience in economic development to second-guess a mission director who spends full time on it and has a career invested.

Senator KASSEBAUM. As I understand it, there was a concern in this project about the absorptive capacity of the Ministry of Health in Honduras, and this is often a problem—there are only so many talented and educated people to go around.

We often worry, and rightly so, about the sustainability of projects once AID assistance is ended. It would seem that this problem of government capacity raises serious questions about sustainability. I wonder how you are addressing this issue, not only with this project, but in general.

How do you handle this? Once you see there is going to be a problem, do we recognize that and say that it is not going to be practical to proceed, or do we just continue on?

Mr. INK. It is a concern, and it is a concern in this project. The institutional capacity was probably stretched fairly tightly in this particular instance. The shifting of a number of Hondurans from the contract to the ministry as permanent employees we think has resulted in a substantial strengthening. There is quite a bit of training going on, both in-country training and I think some 40 have been given training here in the United States, both in management and in health planning.

So, much of the project is designed toward increasing the institutional capacity of the health ministry, and that is the key to its sustainability.

One of the major objectives of the project, you see, has built in the objective of sustainability.

Senator KASSEBAUM. Is that the contractor's responsibility?

Mr. INK. The responsibility is that of the mission. That is part of the design of the project. That is part of the implementation. The contractors carry out a good deal of it, however. There are a number of different contractors involved, of course, in that particular project.

The training is just one component—a very important one, but it is just one component of that project.

Senator **Kassebaum**. I understand this particular project was evaluated by Westinghouse.

Does that constitute a contracting out of evaluation? Is that done?

Mr. **Ink**. This was contracted, yes. It was contracted by AID Washington, not by the mission.

Senator **Kassebaum**. Was this under the jurisdiction of Mr. North because it was an evaluation?

Mr. **North**. This is a project evaluation. As I described the two different levels, the project evaluations are conducted by the regional bureaus or the missions. In this case, this was one that I guess was conducted by the Bureau in Washington. They contracted for the evaluation to be undertaken, following guidelines which we established.

As I said, we feel it is important that the evaluation process be closely linked to the decisionmakers. So in this case, the Westinghouse study is tied in, I believe, with the bureau and the mission in terms of deciding the future of that project.

Mr. **Ink**. The bureau and the mission. The scope of work was drafted in the mission and the evaluation was contracted out through an IQC.

Senator **Kassebaum**. It is my understanding that this was done about mid-term. However, the evaluation was made after the decision had already been made to extend the project 2 more years, even though questions had been raised about the project's sustainability.

Mr. **Ink**. I think that is one of the reasons that the evaluation recommended a more regularized evaluation process in this project, with which I would agree.

Mr. **North**. I would like to comment on that, too. That is not the standard procedure, to do them after a decision is made, but, rather, to do them before. In fact, we have a requirement that any project going into a new phase must be evaluated before that decision is made. There seems to be an exception to the process here.

I have one other comment on the question of sustainability.

This has been an issue that has generated an increasing concern among the donor community in general—the World Bank, European donors, and so on. As a consequence, the donor group, in their evaluation group under the OECD Development Assistance Committee, has selected sustainability as a topic for global review. AID is part of that. We have asked each of our missions to build into their evaluations a specific set of questions on project sustainability that deal with institutional issues, financial issues, manpower issues, and so on, so that over the year we will be getting back from the missions their reports on the steps that they are taking in the projects that are being evaluated to improve sustainability.

Senator **Kassebaum**. In this particular instance, however, what do you think should have been done?

It is my understanding that the Westinghouse evaluation said that there was serious resistance on the part of the Honduran Ministry of Finance to creating permanent positions. Evidently, they felt this would create an obligation on the part of the Honduran Government to continue in this direction, in this field, for some time. Again, we have the issue of sustainability.

What do you do to address this concern?

It seems to me that this is an important question.

Mr. **Ink**. This, I would have to say, is not unusual, to have different points of view. These are sovereign countries that we are dealing with, and we ought not to be in the position to dictate to them.

Senator **Kassebaum**. That's true. We disagree in our own, too.

Mr. **Ink**. Yes.

In this case, there was discussion and negotiation, and my understanding is that the change has been made, from contract to permanent people.

I do not know the details of those negotiations. I don't know how they worked it out. But they apparently have.

Senator **Kassebaum**. I certainly agree with you about dictating. It requires a great deal of sensitivity to the national pride of the country and to their own concerns about the effort. But if they don't want to do it, I guess I have to wonder if we should continue in that direction.

Actually, I think the Oral Rehydration Program has worked very well in Honduras and has been a very successful health project. But I wonder how one decides when it is best to proceed, when there are reservations on the part of the host government. In this case, with the evaluation and some of the questions it raised, it seems to me that this project might be one where some different directions should have been considered.

Mr. **Ink**. It seems to me, in terms of evaluation, it is important to note that it did conclude that the direction in which the project was moving was the correct one. I think it did suggest that there might be some reduction now in the number of elements of that project. This is something which is being looked at.

But the conclusion—well, let me quote: "The evaluation concluded that the basic project design is still appropriate and that the flexibility that has characterized the project's evolution and implementation has permitted it to respond to the Ministry of Health's needs and priorities."

So I think the basic evaluation was favorable. Then, as you indicated, there are a numer of recommendations, of course, which is normally the case.

I would say that most evaluations—and Haven North can speak to this better than I—most evaluations in these projects, as well as those we have in our domestic projects here in the United States, do have a number of recommendations and suggested changes in how they are being undertaken.

Senator **Kassebaum**. If I may, I would like to move to another project for a moment. Also, unfortunately, there is another vote on. But I will try to finish this section before I leave as I don't want to keep you here any longer than is necessary.

This is an inland fishing industry project in Jamaica. It is my understanding that between 1976 and 1984, AID financed two projects in Jamaica for the development of inland freshwater fish. It stressed institution building and construction of ponds, training facilities, and so forth.

The goal was to decrease the approximately 35 million pounds of fish that is imported to Jamaica each year. By 1982, it was clear that the targets which had been set could not be reached. Perhaps the targets were too large. But, by the end of the project in 1984, evaluators said: "What is important is not accomplishments against targets but the existence and vitality of the industry," which was then described as a small, but relatively healthy and rapidly growing industry.

The following statement was also in the project evaluation: "Experienced project managers know that targets and planning documents are always optimistic, written frequently for the consumption of higher levels of approval. Once financing is secured, the planning document has served at least 90 percent of its usefulness."

My guess is this is not a statement that anyone would want to endorse, and I cannot imagine it is particularly on target. However, in this case it does seem to me that there has been a loss of time and money. And the projects goals do not appear to have been a realistic target.

I wonder if you could comment on why this project was not more successful. Was it a casualty of a shift in our overall goals in Jamaica in the last 5 years?

Does anybody want to comment on this?

Mr. **BUTLER**. Madam Chairman, I would be happy to address that.

As you predict, I disagree with part of what was said and agree emphatically with part of what was said about the evaluation.

I do not think that project design is 90 percent completed in its usefulness having attracted the resources for the project. A good project design has enough flexibility built into it that it can react to what is learned in the course of the project. Every project is a learning experience, both for AID and for the host country. We try to minimize adjustments by careful design work. But if we design a project so rigidly that we are unable to react to things that we learn, or things that change in the country, then we really have guaranteed the loss of the resources.

This Jamaica project is one which, very interestingly, had, in my opinion, an enormous success which was very different from what was originally anticipated. So you are right that there was a sharp change in both the course and in the ultimate results of the project. But I think that to call that an error or a failure is not correct I think, if you look at the results of that project—which actually began with a pilot project in 1976 and ended with a second project which ended in 1984—the results of those two projects together are still being seen.

We expect that this year what the evaluation referred to as a very strong and vibrant industry will produce something on the order of 3 million pounds of fish, compared with the less than 5,000 pounds of fish. That is a substantial increase I think, in terms of the inland fish production in Jamaica over a 10-year period.

Let's look at the change that happened. It was originally thought that the best way to increase fish production would be to focus on the small farmers who would handle those ponds. In fact, as the project unfolded, it became apparent that the small farmers did not have distribution systems or knowledge of marketing or the funds to invest in cold storage. These factors had originally been assumed, or it was thought they would develop during the term of the project.

What has happened is that this was picked up by businesses and has become a very successful commercial industry.

Senator **Kassebaum**. Run by AID? Or did AID contract out?

Mr. **Butler**. The AID contract ended in 1984. The process of this becoming a commercially successful venture began earlier than that. The evaluation, as you pointed out, was in 1983.

Senator **Kassebaum**. Well, it was my understanding—and this may be wrong—that it was brought into successful production with the help of the Japanese or Israel, and if it were Israel, partially funded by AID.

My question is this. Was there a shift at some point where it became a for-profit effort, and was that when it took off?

Mr. **Butler**. That happened outside the terms of the AID project.

The AID project was continuing to provide services which began in 1976. There was training, there was extension work, there was research, and there was the building of the Jamaican capacity to provide these services. It was, in fact, one of the commercial farms that began using, as you pointed out, a technique for sexing of the fish that made a breakthrough which has been partially responsible for this increase in production. Only one of the major commercial farms is using that technique, but the others are also doing very well.

I do not think that that detracts, frankly, from the success of the project, because we were able to introduce a new industry on which other technologies, were able to build. I think we should be proud of that.

Senator **Kassebaum**. Oh, I am not quarreling with that. I only wondered if U.S. contractors did this, with all of the AID effort that encouraged Israel and it was Israel that did part of this work?

Mr. **Butler**. The Israeli involvement was strictly private sector. It was not funded by AID.

The U.S. institution which was involved and which remains one of the paramount institutions in the world in aquaculture is, of course, Auburn University. AID, in fact, helped set up the center at Auburn beginning in the early 1970's. They were involved, beginning in 1974 and through the life of the project, and, as a matter of fact, have retained ties to the people that they helped train and the expertise which they created in Jamaica.

So we did have U.S. institutions which were funded by AID and which did provide very critical assistance, technical assistance, support, and backstopping for this project throughout its life.

The fishermen, the small farmers, who are benefitting from this project are farming for their own benefit. The industries which have taken this and run with it are owned partially by the Jamaican Government, but are operated primarily as private sector, commercial ventures.

Senator **Kassebaum**. By Israel?

Mr. **Butler**. No.

Senator **Kassebaum**. Are they Israeli companies, or Japanese?

Mr. **Butler**. I understand that an Israeli private venture owns 40 percent of one of the commercial firms. They did bring in the new technology.

Senator **Kassebaum**. In looking at developing countries, I have often wondered why the Japanese have been able to bid, usually more successfully than the United States, for some of the large private sector projects. I don't know whether this is something that AID thinks about as a project moves along, and at what point this should be a consideration.

I just wondered why, in this case where apparently there was a profitable commercial opportunity, U.S. contractors and companies were not more actively involved.

Mr. **Butler**. I think, Madam Chairman, the contractor in this case, being a university, was really not in much of a position to pick up the commercial aspect of it. I don't know the extent to which——

Senator **Kassebaum**. Anyone else was encouraged to.

Mr. **Butler**. United States firms, however, are interested and are currently discussing with the Jamaican Government the possibility of leasing new ponds which are being built by the Jamaican Government for lease to foreign or domestic operators.

I know that they are talking with U.S. firms in that regard.

Again, this is a building of the industry which was based on something that AID was proud to have been involved in starting 10 years ago.

Senator **Kassebaum**. I am terribly sorry, but there is another vote on the floor. I am sure we could go on to many other subjects. I think, Mr. Ink, you wanted to talk about education, but we may have to save that for another day.

I very much appreciate the testimony of all of you.

Mr. **Ink**. Thank you.

Senator **Kassebaum**. I will be back for the next panel in just a few minutes.

[A brief recess was taken.]

Senator **Kassebaum**. Again, my apologies.

We will continue with our second panel, now. I very much appreciate your still being with us at this point.

Let me introduce the members of our second panel. They are Ms. Cornelia Flora, professor of sociology, Kansas State University; Mr. Anthony Schwarzwalder, director, Management Science for Health; and Mr. Edward Marasciulo, executive vice president, Pan-American Development Foundation.

Ms. Flora has to catch a plane and will have to leave here at about 4:30.

So, Ms. Flora, perhaps you can begin. My apologies, again, for this being so delayed.

STATEMENT OF CORNELIA BUTLER FLORA, PROFESSOR OF SOCIOLOGY, KANSAS STATE UNIVERSITY, MANHATTAN, KS

Ms. **Flora**. Thank you.

I come to this topic of the Agency for International Development as an outsider. I have done evaluations for AID, both for the Botswana country mission and for the science and technology effort. I am at a university that has long been involved with AID contracting, and I have worked with the Ford Foundation. As a Ford Foundation employee, I have had the chance to observe AID in the field in Latin America.

My area is agriculture and rural development. So I will be looking mostly at those kinds of programs, although I will not hesitate to generalize to the whole.

My concern about the process of foreign assistance which the U.S. Government carries out is in terms of its long-term continuity, which ultimately means that the programs that are instituted are institutionalized in the countries in which they are attempted. To do this, I believe a lot of flexibility is needed.

I will address the twin themes of continuity and flexibility, in foreign assistance. Foreign assistances, in my mind, is what we are doing as a nation to help people solve development problems ultimately for themselves.

Thus, when I look at agriculture and rural development, in Africa, my concern is not that we come up with that snappy technology that is going to raise two grains of sorghum where one was before, but that we set up institutions so that the Africans themselves identify and prioritize their problems and their work to overcome them. Foreign assistance should empower them to do that, through institutions. Such institutions can involve policy, can involve training, and may involve such things as providing access roads and marketing skills to help developing nations solve their problems themselves.

Using this perspective as my definition of development, I have identified three constraints to achieving this that I think affect the Agency for International Development. If I were looking at general constraints to development, I could come up with long lists—I have published quite a bit on international development, which automatically classifies me as an "expert", I suppose—I could list contraints that stem from national governments or implementing institutions. Certainly I have criticized land grant institutions concerning their constraints as effective development at agents. However, at this point I will look at the Agency for International Development.

The first sort of impediment or constraint that I see is a multiplicity of foreign assistance goals. In my written statement, I call it contradictions in foreign assistance goals.

What is it that we are supposed to do? Are we supposed to reward our friends and punish our enemies? Are we supposed to stop drug trafficking, protect human rights, stop abortion, bring down population growth? Who is AID's constituency? The private sector in this country? In the developing countries? Contractors here and abroad? US AID has had multiplicity of goals. Many of these are laudable. A constituency has developed for each of these multiple and contradictory goals.

I would hope that Congress would take a look at protecting the Agency for International Development at times from these constituencies, instead of what I see as a larger and larger tendency to earmark and constrict the development of programs in light of these multiplicity of goals.

I was delighted to hear that the evaluation section of AID has tried to look at the interaction of AID and drug control, because I think it is very important that we address what AID can do, in terms of our goals, instead of what we want developing countries to do and see AID as the handiest instrument for implementation.

This administration, for example, has decided that the withdrawal of aid is inadequate to preserve human rights. Other instruments have been determined to be more effective. What kind of aid response is adequate, inadequate, or appropriate for different kinds of country-based responses in terms of policy and in terms of practice?

This is an empirical question. It should not be an ideological question. We need to examine what is possible when we put such constraints on AID.

My second concern is about the reward structure within AID; that is to say, on what kinds of things is the career structure built? Is long-term continuity and flexibility part of that?

We have talked about rotation of AID personnel and the attempts to decentralize and keep people in country longer, with longer terms of duty. Does this rotation involve multiple assignments to the same country?

We have talked about the advantages of learning from what goes on in different parts of the world. Yet, I am convinced that the development process relates so much to the context that a continuation of working in that same context must certainly help achieve those development goals.

One of the things that concerns me about the reward structure is too much emphasis on innovation; that is to say, a new mission director might come in and decide that what is rewarded is what is new—not correcting the old project, but putting in a new project.

I have observed cases, because I am involved with farming systems research and extension, where a new director will come in and basically deny any contractual obligations formed by the old mission director, particularly within a country. I think this is very dangerous. Such innovative behavior makes us look like very unreliable folks to the country in which we are working.

Such innovation does not help to build friends abroad, nor does it endear AID to the contractors.

Our concern has to be that ultimate goal of institutionalizing developmental changes. Does rapid and dramatic policy changes, for which new staff tends to be given points, really bring about that ability to convince a country and empower it to take over these development functions?

My third concern is implementation. How long does it take for development?

My conclusion is that it takes a long time.

The point was made well this afternoon that this long time is a flexible time. It should involve a curvilinear AID trajectory, which starts out with relatively small amounts of money, implementing and evaluating whatever the program is going to be, and with a constant monitoring and evaluation to see if it is working, why it is behaving the way it is, and should it then have more funds or other kinds of assistance then by forthcoming.

Some projects work well on a small scale and do not work well on a large scale. The proper scale and possibilities of upscaling has to be determined on an empirical basis.

I have seen more projects—from my limited point of view—ruined by too much money and too rapid a conclusive ending, than from too little money and too long an implementation period. The notion of continuity with less funds seems to me better than the notion of a lot of funds fast.

The pace of project funding and project length ties back to the previous point of reward structure.

There is a tendency with our entire fiscal accounting procedures, as a government, to reward people for how much money they push, rather than how well they push it. It takes the same effort to give a large grant as a small grant. I found this out working in the Ford Foundation and I certainly observe this in AID.

I am not sure it is always equally effective to give a large grant as a small grant. As staff is cut, the notion of efficiency, rather than volume, really has to be considered. I would hope that Congress would allow enough flexibility in funding so that funds could, indeed, be carried over. That would help increase flexibility—so that the funds could be moved in the best way and not in the fastest way.

The length of implementation period ties back to the point made previously about contracting. The notions of fairness and efficiency do, indeed, contradict each other at times, and having a continuity of contractor, particularly in institution-building, is often a key to program success.

Current procedures now basically cut off the old contractor and entirely reopen the contracting procedure. That stops the continuity of the process and leaves a developing country not knowing what is coming up. And, more importantly, the kinds of ties that are established long-term between a contracting entity as an institution and the developing country as an institution are severed. You see a lot more hustling on a short-term basis than colleague-building on a long-term basis.

Kansas State University in Nigeria is a wonderful example of long-term colleague building. Whether or not Kansas State University built the best, most efficient institution, or was the best possible choice to do so is not important. What was established was a long-term commitment that has continued at Kansas State University long after the contract with AID ran out. We are putting State money and individuals' personal funds into maintaining the collegial relationship with Ahmadu Bello University. This has had all sorts of interesting spinoffs from my institution and for other parts of the developing world.

I will give the example which I have put in my written testimony.

I have never served in Nigeria, and, as a Latin Americanist, am not particularly anticipating ever doing so. But I did chair a doctoral committee of a woman who was in charge of their home economics extension unit there. Working with her in her Ph.D. research, we analyzed the needs of Nigerian women, which did not involve crocheting or making carrot cake. It involved a lot of productive agricultural activity. We then took that analysis and tried to redesign the home economics extension training program.

This was a very exciting kind of activity to be involved in. It is going to make a great difference for women's lives in Nigeria. It would not have happened if Kansas State had not had that long-term collegial trajectory with Nigeria.

But there is more to that story.

Our college of human ecology thought that was a really good example, and, through Partners of the Americas, in Paraguay, we are working to build a college of human ecology that will train extension workers, that will treat women as producers—again, not as simply homemakers. It will take into account all the things that women do.

We think this will contribute to Paraguay's development and we know we will be a better university as a result of it.

There were no AID funds involved except through Partners of the Americas. But the fact that we had that long-term partnership, a three-way partnership between AID, our university and the university in Paraguay, sets up to them continue in Latin America.

These are my concerns, Madam Chairman, and I really appreciate the chance to come and tell you about them.

[The prepared statement of Ms. Flora appears in the appendix.]

Senator KASSEBAUM. Thank you very much.

We should move on and have another statement. But I would like to ask you some questions before you leave. So we will keep an eye on the time.

Mr. Schwarzwalder.

STATEMENT OF ANTHONY M. SCHWARZWALDER, DIRECTOR, MANAGEMENT SCIENCE FOR HEALTH

Mr. SCHWARZWALDER. Thank you, Madam Chairman.

I have left a written statement also with the committee, and if it is acceptable, I would like to summarize and perhaps expand somewhat on it, not having had a chance to sit through the earlier hearings.

It is a pleasure to be here at the committee. I am coming because of my 23 years experience with AID, including 11 of those overseas, my assignments included mission director to Bangladesh and to the Philippines, as well as a number of senior assignments in Washington, before I left AID 2 years ago.

I suggested in my paper that we consider looking at the questions the committee was interested in in perhaps three categories. I find that this was not such a particularly brilliant idea because you seem to be doing the same thing.

One is certainly the internal systems.

In general, I feel that AID's systems for project development, review, and implementation are good. I think that much of the criticism, of the system comes from people within AID who are always striving to improve their own record. I think that is a healthy positive kind of criticism.

My impression is that AID's record compared with other major donors—the World Bank, the other multilateral organizations compares quite well in terms of the elapsed time required to get projects from the initial discussion stage up and going in implementation.

Much has been said about delegation to field missions as an important part of the internal management systems. Certainly, from my perspective, I have applauded the delegations that were instituted when I was there. I do feel that in some cases, the largest constraint to taking advantage of those delegations will be the size and technical skills of the staff that is actually in place in the missions. Of course, many of the AID missions are on the order of 10 or 15 people, so that taking full advantage of the delegations can be somewhat limiting.

A key to making these delegations work oftentimes is the support from Washington, especially TDY support of technical personnel on a timely basis. Frequently, this does not happen, either because of limited travel funds or the inability to provide followup visits by the same people to a country, who could then make each TDY visit easier as country knowledge and contacts are developed.

In Bangladesh, when we began the program, after the independence, we had a very minimal staff. We developed a very extensive program, almost exclusively with TDY help, something on the order of three or four visits a day for 6 months.

We found that for the first visit of a TDYer, it would take roughly 150 hours of staff time to get that person set up, in place, make the contacts and get them started. If that person returned a second time, we found that we could drop down to about 20 or 30 hours; and if they came back a third time, they oftentimes were on their own, without even any particular reliance on a very limited staff.

So that model can be used, and missions, to take advantage of delegations, need to have access to technical skills on a timely basis from Washington.

Washington's commitment to decentralization is often gauged by the amount of money that is delegated to a mission director in terms of authorization levels.

When I was in the Philippines, for instance, we had an delegation of $20 million. In theory, the mission could authorize a project of up to $20 million for the life of the project. That seemed like a very heavy responsibility. But in several cases, I ran up against procedures in Washington at that time—I am sure probably some of these have been cleared up—which stymied moving ahead. An example was in order to get a contract with a local Filipino organization to do some work associated with project development, we had to refer the scope of work back to Washington, get approval for, a $7,000 piece of work for a project that was many, many fold that amount and which could have fallen within my delegation.

Ironically, the project we were starting to get developed, which was delayed for several months because of this need to clear a particular scope back in Washington, was one that encouraged decentralization of decisionmaking within the Government of the Philippines.

I certainly would associate myself with the prior comments urging recognition that the development process is a slow one, involving slow, tedious, hard work. It seems to me that the implication there for AID has to do with authorizations of projects for longer periods of time, perhaps seven or more years, on a routine basis. That has begun. Actually, in the Philippines, we were one of the first missions to get a project authorized that had a life of project of 7 years.

But I think, realistically, most activities are going to take about twice as long as anyone ever estimates, for all the reasons you have heard in earlier testimony.

Another point I would like to make on internal management systems has to do with personnel. I think that any of the systems on paper are only as good as the people there and as good as their ability to be effective in the field.

It seems to me that the continuity issue that you have disussed turns to some extent on the continuity of field personnel and assignment criteria of somewhere on the order of 5 to 6 years. In many countries I think would be very desirable.

I recognize that, certainly in some of the really severe hardship posts, as in Africa, or where terrorism is a serious problem, this would have to be looked at very closely. But a 2-year cycle of assignments, even though in most cases people are extended for a second tour, is both consuming of Washington management time, expensive if people do leave short of 4 years, and difficult for staff to develop full-time, indepth, host country relationships.

I think the 2-year cycle probably has its roots in the State Department feeling that if people stay too long, they become too associated with the country, they lose track of the U.S. foreign policy objectives, and so forth. But I think there is a unique difference between AID and State. Embassies for the most part are observers, analyzers, and influencers at a high political level. It is quite different than trying to develop a project, get it started, and get it up and running before you have to move on to your next post. Constantly AID staff have said to me that there is a lot of frustration about not seeing your work come to fruition in before you move to another post.

The earlier session discussed an example in Honduras. One of the constraints that was mentioned was the changing of the AID team. If you are looking at a project level, the key players would be the mission director, the deputy, the program or capital development officer, and the technical person. I would venture to guess that at one or two of those five people was changed in Honduras every year, just by virtue of the fact that there are staggered assignments.

I would make a point on the internal systems which has to do with technical skills within the Agency itself. Personnel reductions have meant that AID does not have the critical mass of technical skills in many areas that it has had in the past to be in the forefront of new approaches to development. In fact, many of the AID technical people spend a considerable amount of their time as contract managers. That certainly is not a very attractive way to spend your life if you have previously committed a lot of it to becoming a Ph.D. in agriculture or whatever your field is.

Senator KASSEBAUM That is the new direction, wouldn't you agree, at AID today? We heard yesterday about how they are focusing on management training.

Mr. SCHWARZWALDER. Within AID some extent people are forced, if they want to stay with AID as technicians, to devote a major part of their time to contract management. A decade ago there were people who were able to spend much more of their time thinking about technical issues.

Again, one of the points made was that the reward system to some extent has to do with managing contracts or managing money, as opposed to technical insights. I think that is a change within AID that has been a fallout from the personnel reductions which AID has incurred over the last 5 or 6 years.

On the country level, I certainly concur wholeheartedly with the comments that have been made about continuity, and the concerns that are often engendered within host countries because of shifting of priorities and changes of program emphases. These are both, in terms of the program areas—health, agriculture, etc.—but also in a broader sense the interplay between the problem of development assistance and economic support fund objectives, especially when they are being pursued concurrently in the same country.

Less than a decade ago, it was viewed, I think perhaps even by legislation, that the two programs could not be undertaken simultaneously in the same country because of the perceived difference in their objectives—short-term political versus longer term development. Certainly, over the years, those concepts have merged. With ESF, there is a somewhat stronger tie between economic development and political objectives in some countries. But many of the ESF programs are initiated because of short-term political objectives.

I can speak from experience in the Philippines. When I began as mission director in 1979 was when we began the ESF program, with funds being provided pursuant to the negotiations regarding continued access to Clark and Subic. In the case of the Philippines, there had been a development assistance program that was uninterrupted since the end of World War II. It was based on certain premises and concentrated on certain areas that mutually had been identified as attractive.

When the ESF program began, its funding level was more than 50 percent greater than the DA program, and now I believe it is roughly three times as much. While we attempted review processes that were somewhat similar, many of the funding arrangements were quite different. In the DA program, generally, the costs of a project were shared 50/50 between AID and the government. In the ESF program, close to 100 percent of the costs were financed by the ESF program.

In the DA program, the costs were reimbursed after expenditure by the Government of the Philippines. In the ESF programs, dollars were transferred in advance of anticipated local currency needs. DA funds were provided mostly on a loan basis, ESF was all grant.

So it is only natural, if you are a planner in a country and you have two programs and one is larger, one is all grant and the other is on loans, and one is more flexible, that your interest and attention is going to go to the ESF program. My impression is that variations of the Philippines experience are being repeated in an increasing number of countries. Thus, there perhaps needs to be a clear examination in countries where the two activities are running concurrently as to how to merge them or make them more compatible, or at least understand that in the process, the development assistance program, often based on long efforts at collaboration, may, in fact, suffer a great deal because of the higher profile, easier ESF money.

Also, I believe over the years that AID has embraced a number of perfectly valid approaches to attaining development goals. Sometimes these approaches become ends unto themselves, as opposed to the means to broader goals. Some examples would be the title IX program (increasing popular participation) women in development, private sector involvement, and policy dialog.

I think the challenge for an AID director or development experts is to find the right mix between these and other kinds of mechanisms or approaches to attaining broad-based development goals.

For example, policy dialog on the macro level I believe is rather difficult to carry out when it is done bilaterally because in only a very few countries do AID resources exceed 5 percent of the total official development assistance thus providing limited leverage. On the other hand, approaching policy issues through projects which can provide examples for senior level managers, may, in fact, be more productive and less intrusive.

The private sector initiative, again, is a very valid mechanism to help attain development objectives. I am not questioning the emphasis. But I think, for example, that it may founder because it is viewed in some countries as being too ideologically motivated; however, a program focusing on public sector efficiencies which concluded that in certain areas, privatization is the best way to go, based on some measures of efficiency and effectiveness.

So, I feel that sometimes some of the emphases have become almost goals in and of themselves, to be put into place without necessarily examining all of the implications or their impact on broad development goals.

Senator KASSEBAUM. Mr. Schwarzwalder, I'm sorry to interrupt for a moment. Ms. Flora is going to have to leave in about 4 minutes and I would like to ask her a couple of questions before she leaves.

In some ways both of you have touched on these questions.

Ms. Flora, you mentioned access roads at one point, in your commenting on things that you felt were important.

I caught that in your statement because I have wondered if we have moved away from what was once as a focus on infrastructure in our efforts and have gone in different directions, perhaps causing us to miss same activities and integration which are still important. As Elliott Berg said when he testified here regarding agriculture, we should do what we do best, and many times that is roads and communications.

Do you see infrastructure as something that perhaps we could give renewed emphasis to?

Ms. FLORA. I certainly see that as the case in Africa. I come from it from an agricultural production point of view, and I would give an example from Zambia.

They define what we call recommendation domains, that is, the kind of technology you can recommend in an area has a lot to do with whether they can get the goods to market or not. You draw a map of Zambia and the recommendation domains have a lot to do with those roads.

Agricultural production, in turn, relates to the market.

So I think this is precisely a way to increase agricultural production, increase the role of the private sector, and do the kind of things we do best.

I mention in my written presentation that roads should be appropriate to the technology of the Zambians and should involve a maintenance program as well as a construction program.

Senator **Kassebaum**. Second, you touched on earmarking, although I am not sure that is what you called it.

Ms. **Flora**. Yes.

Senator **Kassebaum**. I assume by that, then, that you believe we would be well served if we did away with functional accounts. I think you touched on that, too, Mr. Schwarzwalder, suggesting we would be better off with a little more flexibility.

Ms. **Flora**. Yes, because the functional accounts tend to be rigidified, once again, into ends, rather than means. They become political tools, as opposed to development mechanisms.

I think earmarking removes flexibility from a region that must respond to the context. In one country, PVO's may be the only way to develop. In other times, you may want to move from a government project into a private sector project.

Calling it one thing or another, setting it under a particular category, limits your ability to meet that long-term development goal.

Senator **Kassebaum**. Thank you very much.

We certainly appreciate your being here and are sorry that time has been so short.

Ms. **Flora**. Thank you, Madam Chairman. It was my pleasure.

Senator **Kassebaum**. Mr. Schwarzwalder, thank you for permitting the brief interruption.

Mr. **Schwarzwalder**. Madam Chairman, I only had one or two more points, and they were under the broad category of external influences as a third category to look at. I did focus on the Congress as one of the external influences, one of many.

Historically, Congress has been critical of AID and skeptical of its ability to show results. Certainly this is not without some basis, especially if the difficulties associated with conducting a program of this sort around the world are discounted or not fully understood—all of the complexities of different cultures, different systems, which Mr. Ink talked about. I feel that, in general, within the Congress there has not been an appreciation of the difficulty of the challenge.

If that is not there, then certainly you can become very quickly impatient for results.

Thus, AID has sometimes become defensive, more reserved perhaps about initiating new programs, and frequently has been forced to promise quick results in order, among other things, to convince a doubting Congress about the wisdom of its proposals.

Oftentimes this does result in the overselling of particular ideas or approaches.

An example of that would be the basic human needs initiatives, which was the centerpiece of AID's programs in the early and mid-seventies. There was a fairly broad-based coalition of development experts, AID people, congressional staffers, and so forth, who came to the conclusion that something like basic human needs was a very appropriate approach to development.

But then, I think, lacking a dialog in which AID was able to say, quite honestly, this is going to take a very long time, what happened was that there was almost a commitment to show results at a time when projects were expected to be completed in 3 years. Even though certainly one can cite many, many examples of basic human need project activities that were very successful, essentially the overall impression was left that it was not performing the way it was supposed to and has now become out of favor.

When I think back to my experience in the missions at that time, we were required to develop basic human need projects against what I would consider to be fairly short deadlines, without many times having had adequate preparatory work and collegial discussion with our counterparts. I feel that a lot of that had to do with the nature of the dialog between the Congress and AID.

The same thing might happen with the private sector initiatives. I would guess if we look back at the private sector initiative after 4 or 5 years, we will find two themes. First, there will be many, many good examples of significant contributions to development. Second, there will be a feeling amongst many, especially people on the Hill, that the private sector iniative has not performed as advertised, due mainly to the need to oversell the idea in order to get a commitment from Congress.

My last point has to do with the notification process, which is the ultimate expression of congressional skepticism. Last year around 850 notifications were sent to Congress, dealing with over 1,300 projects that were either modified in some way or were new starts.

Requiring such project specific detail is holding the Agency to a degree of precision that I do not think is required of other Government agencies. Especially I would note the comments Mr. Ink made about making some comparisons with some of the domestic programs in this regard. Budgets are begun 2 or 3 years before the presentation and the development of projects. Implementation begins much later. Factors like in-country inflation become a significant and unpredictable part of a project because most of AID projects have heavy local currency costs.

There are many variables, so that it is virtually impossible to predict 3 or 4 years ahead of time how a project is going to come out of the final process, including costing, design, and implementation. The exception, it would seem to me, would be a project that would go exactly as designed.

Those are the general points I made in that area, an establishment of a realistic dialog on what AID can and cannot do, what are its constraints, and what are its strengths.

Those are very important and I certainly think that the kind of session you are holding is the kind of session I would hope could be held more in the future, both in terms of the substance and the spirit of the way it has been conducted.

Thank you.

[The prepared statement of Mr. Schwarzwalder appears in the appendix.]

Senator Kassebaum. Thank you very much.

Mr. **Marasciulo**. I hope you have not given up, having waited for so long.

STATEMENT OF EDWARD MARASCIULO, EXECUTIVE VICE PRESIDENT, PAN-AMERICAN DEVELOPMENT FOUNDATION

Mr. **Marasciulo**. Madam Chairman, I hope that this falls in the category of the "Message of Cana," that you sort of saved the best wine for the last. [Laughter.]

Thank you very much. I am flattered to have been asked to come here this afternoon to testify on what is to my mind a very important issue.

Though it might appear trite to some, I would like to give you a little background on why I came to AID just after World War II.

Coming out of a war and feeling very strongly the need, philosophically, that the development process was an alternative to war, and coming out of the Marine Corps and jumping around the Pacific, as I did, and perhaps taking too many lives as an individual, I felt the need to spend time in academia, both in the United States and abroad, to prepare myself for the foreign aid program.

I spent 28 years in it. My last assignment was mission director to Honduras.

I spent a good 28 years, most of it in Latin America, with a couple of short assignments in Washington.

I was proud then, and still am, to be able to say that I had an association with the Agency for International Development and its predecessor agencies. It is something I genuinely believe in, and I think many of my colleagues believe that I have fire coming out of the top of my head because I do have an evangelistic view of what AID is for and what it should be doing.

Seeing AID from the evolution of the UNRA arrangements in China, immediately after World War II, going into the Marshall Plan and then into the old Servicio Arrangements in Latin America, evolving as it did into eventually AID—I see it has become more and more constrained in its ability to perform.

I would say that perhaps most of the blame for this, if one does put the blame, is on the action of the Congress itself and the constraints that have been put on the AID program.

I think more recently the matter of congressional notification is perhaps one of the most burdensome, bureaucratic mechanisms that I think ever has been invented in terms of trying to get aid programs off the ground.

I see this not only from my own experience with the work of my foundation, but also in the frustrations that it puts upon the AID field people who have many other burdens to carry, not only in living abroad, but in some cases in living abroad under some rather very difficult circumstances.

They are, the true heroes of the AID program these days.

I have really been out of the AID program for over 11 years, I then went to the Organization of American States, where I was the Assistant Secretary for Management, and from there, have been with the Pan American Development Foundation, which is a private group, working with private organizations and corporations in Latin America. It appears to me from where I sit, that the AID program, as managed at the moment, seems to demonstrate, a completely different viewpoint, as run by the government, as compared to the AID program in the eyes of the American people.

I think the American people have a distinctly different goal, distinctly different perception of what AID really should be. You, yourself, probably contribute significantly to private contributions for private programs that the American public put together.

It is a matter of fact that the American people contribute $70 billion a year to development programs. Agreed, only about 10 percent of it goes abroad. But the American people do have a rather significant interest in this, and I think in many ways they laugh at the Congress. They laugh at the manipulations, the political manipulations of the AID program to a degree to where I think it frustrates the effort.

I served as a consultant to the Kissinger Commission on Central America for humanitarian and social affairs. In that role and in the Commission's report, as no doubt many of you have read, which you are aware of, one of the major concerns, particularly in dealing with Central America, the concern still is of dealing government-to-government. This difficulty and the current structure of the AID program, forces the issue of dealing government-to-government, which, itself, forces statism. It forces to a certain degree an element of state socialism, in Latin America.

I think even the AID effort in trying to deal with the private sector becomes, a bit of a joke. I think if one looks at the development of the banking industry in Miami and the direct relationship to that banking industry and flight of capital that comes out of Central America, as a direct relationship to the amount and influx of dollar transfers that take place through the AID programs makes one begin to wonder what real benefit the massive AID transfers have to the poor and miserable people who are living in Central America.

I think this is a concern of more and more people who are looking at the AID program from the standpoint of their own donations.

My own foundation, which is tied very closely to the corporate world, is very cautious at the amount of assistance that it will receive from Government operations. We will go where we are needed and where we can be helpful.

But I think there are a number of misconceptions. I read in the committee's report that one of the concerns of working through PVO's is because directors of PVO's make $100,000 a year. Well, I am the executive vice president of the Pan-American Development Foundation and I wish I could receive the salaries of some of your staff people. I don't.

As a matter of fact, my salary is probably half of that. And yes, I am serious.

It may very well be true for organizations like CARE and CRS, that maybe they do receive that amount of money. I don't really know. But I think the majority of PVO's really keep their management overhead pretty low.

My own foundation at the moment is somewhere in the neighborhood of 25 percent. I think the profits, probably go 100 to 150 percent in terms of their dealing with AID; and in many cases, in the contractual relationships, there are some cases, particularly with the minority contracts, where the contracts are given to minority groups, who then make subcontracts, maybe three or four subcontracts, each one of them taking about a 150 percent overhead.

I think this is a bad arrangement and something that clearly should be looked at. I think the whole aspect of minority contracting does have great advantages. There is no competition necessary. It is noncompetitive because you are dealing with minority groups.

I think this particular area has gone a bit far. It probably had a purpose under the Civil Rights Program, but it has gone a bit far at the moment, and I think it should be looked at so that AID itself could probably deal a lot easier in the sense of dealing more broadly with the PVOs.

Speaking for the PVO community, since I feel I can talk on both sides of the issue, the PVO's find it very difficult, in many ways, in dealing with the AID structure. There are too many of us, and I think it is very hard for the AID Agency to have anyone of any great level or high level personel to deal with with so many PVO's.

However there are only three PVOs that deal solely in Latin America. We are a very small, almost closed shop. We are specialists.

We could be very helpful in the long run to carrying out programs in Latin America. I think there is much more that we can do than we do do.

I do not think, by and large, that the AID bureaucrat takes the PVO's very seriously. I am not quite sure why, but I do think it is something that we should be concerned about.

I don't know how to press that. There may be some fears, some concerns, but I am sure those can be washed away.

I am proud to say, though, with the new direction in the Latin American Bureau, with Mr. Ink and with his deputy, we have found a whole new working relationship in developing those programs. But we are, as a group, I think, the PVO community, concerned about this working relationship, which could be improved a great deal.

I would like, if I may, to quote very briefly from an article done by Charles Waterman in "The Christian Science Monitor, 'who indicates that roughly a billion dollars in Soviet military aid from 1979 to 1983 was given to four countries: Algeria, India, Iraq, and North Yemen.

In the process of giving that aid, however, in his article—which is a rather extensive one—he says that these countries are quietly growing closer to the West.

I think the whole philosophy of aid giving so that somehow or other we are going to keep countries within our political purview may very well be a false premise. I think the very fact that the Soviets are having this problem shows that we should be able to look at it perhaps a little bit more broadly, as to how we deal with it.

I do not know whether you are aware of the fact that AID does not operate in any great way in most of South America. That is a terrible mistake, in my judgment.

We use the political judgment and many times we assume the political judgment is coming at us through the Department of State. If the Congress accepts that, I think it is misguided. Someone had mentioned earlier as to whether the ambassador provides the goal or at least the structure for the development program within an AID Program. That has not been my experience. I think most AID mission directors, once they get out of AID, are willing to speak openly about this as a problem.

I think the whole AID-State syndrome is a major problem of AID management. It goes well beyond contracting. It goes well beyond the planning mechanism that we are talking about. It is the whole structure of the bureaucracy of dealing with how we handle foreign aid.

I think this is a problem that we must look at in a much broader sense. I think the aspect of diplomacy in the political side of the development programs is one thing. The technician and how programs are implemented is, a completely other thing.

I think you will find that ambassadors like to go to inaugurations and they need their PR role to play. It becomes more and more difficult with political ambassadors.

Indeed, I say this with a certain amount of experience since one of the reasons I left my last assignment is because the last Ambassador I served with there, whose claim to fame was that he was Ron Zeigler's roommate in college, had done such a terrible job as being ambassador that I was beginning to play his role and felt the need to withdraw.

I think these are the kinds of things one has to deal with in the development business.

I could go on and on, and I suppose most people would be glad that I don't. [Laughter.]

But one thing that I think we have learned, Madam Chairman, is that in the development process, there are no models. I think Rostow and the others in the early days of the Alliance for Progress have proven that no model really works. As the Portuguese call jetu, there is the need for a certain amount of ability to feel a situation. A developmentalist, a risk taker, as was mentioned earlier, someone who can speak a language, live within a foreign society, and make some good solid judgments—these are really the people who can make an AID Program, a development program, work.

Most of these AID programs must be taylor made to find a solution. They really cannot be developed against a model as the Congress appears to desire. This construction depends upon the ability of the leaders that we put in the field, and I think we have some very good ones there now. I think we can rest assured, at least within the structure of the AID Program, that those people who are there are dedicated. I think they deserve a heck of a lot more credit and a lot less complaint and pressure to be put on them.

Thank you very much.

Senator KASSEBAUM. Thank you very much, Mr. Marasciulo.

I would like to ask a few questions of both of you because I think what you have both said fits in with much of what we heard yesterday.

I was just getting ready to say that it seems to me that we frequently reinvent the wheel, although I would concur with your view that perhaps we have to, and that is good to look at each specific time and frame of reference somewhat anew.

However, I wonder if there is not some institutional learning that we should not pay greater attention to as we look to what happened 10 years ago. I certainly think this will be the case in the Philippines, where there is going to be an aid request now for some significant work, evidently. Shouldn't we look at what was done, why it either did or did not work, and what should be done now, building from some past experience?

I don't know how often that is done.

It seems to me that that would offer valuable lessons as we change, as we move along in concepts and in personnel.

I certainly agree with you on flexibility. I think Congress, with its functional accounts, and perhaps with earmarking, has restricted AID's latitude too severely.

But it is also difficult for us to sell foreign aid to our constituents, because aid is one of the most unpopular parts of the budget.

As you pointed out, Mr. Marasciulo, it is in many ways misunderstood, although the public is a very caring and very generous supporter of private relief efforts. That was shown in Africa, where a large amount of money came privately to support the famine stricken areas of Africa. There were countless gifts of food.

It seems to me that some common themes have emerged from our discussions, concerning both Congress and practices within AID. One that I have heard over and over again is the need for greater flexibility.

Part of this could be not being so tied to restrictions by Congress. But, on the other hand, exactly how is that going to work?

In the Honduras case that we looked at, for example, it seems to me that there should have been an effort to make it more flexible and to build in a greater opportunity to turn the project over, so that it can be sustained after we leave.

I don't know how you get flexibility, however. Is it through better evaluation? Is it through better contracting, so that you have contractors who are responsible, in practice as well as theory, for the design and the end product of the contract?

It seems that we are moving in a direction in which, as one of you pointed out, we are becoming focused more on management, but the actual implementation and techniques are falling more to contractors.

Mr. Marasciulo, do you have a comment?

Mr. **MARASCIULO**. Well, I am afraid that sometimes we put too much emphasis on techniques and not enough on leadership and management itself, in terms of choosing the people we deal with.

I would like to tell you an anecdote, if I may.

During my time as mission director in Honduras, we were very much concerned about and very active in putting together an agrarian reform program. Indeed, one of the reasons why I think Honduras has the balance today that it has, within the milieu of Central America, is because it solve its land problem back then.

In the process of putting it together, the Ambassador in the adjoining country, Nicaragua, who was also a political appointee, was told by Anastasio Somoza that there were a lot of Communists up in Tegucigalpa who were dealing with agrarian reform, and we were called down three times to have dinner with the Ambassador in Nicaragua and with Anastasio Somoza, who showed up at mid-night and stayed till 3 or 4 in the morning and counseled us on how we should run the program in Honduras.

It took a great deal of biting the back of the tongue, of listening, and going right back to Washington and telling the Assistant Secretary that this happened, and we are going to do the best we can, and we are going to continue to work along with these things.

These are the games one must play.

Foreign aid is not just a matter of management. It is a matter of politics as well, and how one handles and how one manages these things is very important.

In Honduras we had a great deal of difficulty after the 1969 war with El Salvador. We had an AID portfolio of $65 million and it was going nowhere.

I had a congressional delegation come down and say why didn't I deobligate all of it.

I said well, you sent me here to help Honduras, and it is going to take me a little bit longer to do it. I was willing to be forceful, as much as I could. Indeed, that is precisely the way it moved, and we were able to do these things.

Now I suppose in this case you may have had some problems.

Senator **Kassebaum**. We have talked a lot about donor coordination and that the World Bank's role now perhaps is more forceful in that coordination. Let me give you an illustration of the same project in Honduras, because, evidently, the European countries are expressing a greater interest in donor work in Latin America.

Where it seems to me coordination, again, is important, is, for example, there, where in the Westinghouse evaluation, it noted that the reprogramming request that has been made now included a request for some oral rehydration equipment, even though that same equipment provided by European donors was stacked up in various warehouses throughout the country.

Well, there, again, is a certain frustration with a coordination of effort.

I don't know who has that responsibility. Maybe it is the Honduran Ministry of Health. But it seems to me that at some point we have a more effective operation all around if there can be better coordination.

Do you have any suggestion on how we can do this?

Mr. **Schwarzwalder**. Well, not on coordination, but I would like, Madam Chairman, to make a comment about your question concerning flexibility and how more flexibility can be attained.

It seems to me that in order for AID as an organization to get the kind of flexibility that is necessary, there are probably two preconditions. One is an increased recognition within the executive branch of the importance of economic development as a political objective. That is the point that Mr. Marasciulo was making, about AID within a political context.

It seems to me that in many countries unfortunately the political context is a very short term, and there is not a commitment to the political benefits that derive from increasing economic development and the standard of living for the majority of the people.

The second I think is an increasing public awareness of the recognition of the long-term nature of the development process.

For example, you mentioned the responses to the Live-Aid and the U.S. Aid For Africa. I served on an advisory board for the Live-Aid group here at Georgetown University which was processing applications. I must say that I was quite disappointed because I feel that a real opportunity to educate, in a broad sense, the U.S. public about the longer term, hard aspects of development was lost.

Unfortunately, most of that money was donated by people who felt that if you watch a rock show and donate a little bit of money, the problem of hunger in Africa could go away. I think that after some of the people who were involved, for example, Harry Belafonte, for example, Bob Geldorf, took one or two trips to Africa, they said hey, this is a lot harder than we thought it was. But, unfortunately, that sort of message was not really reinforced enough to the general public.

I think that most people expect the AID Program to be a quick fix if it is humanitarian response, or whatever.

So to get the flexibility that development experts need, there must be a greater understanding of the political importance of the development process within the executive branch, and a broad-based understanding of the long-term nature of the development process within the American public.

Senator **Kassebaum**. If we give more flexibility here, how flexible do you think State or OMB will be considering changes in their roles?

Would either of you wish to comment on that?

Mr. **Marasciulo**. I think one appoints people in jobs to manage. If one does not have enough faith in those individuals to manage the program and to be accountable—I think accountability is an important factor in anyone who holds a major executive job in Government. I think most of us who were there and who continue to be there from time to time feel this need. But this matter of so many checks and balances creates a bureaucracy so that many times one ends up spending more money on the administrative side of the ledger than you do in the actual project side of it.

Now, I am not answering your question directly. I suppose a lot of it depends upon whether the Congress has the faith and whether the administration has the faith in the people who are managing the programs. Indeed, if they continue to not have the faith in them, then that bureaucracy process is going to have to stay there.

I do not think it could go much beyond that.

I think it is clear. I find this in my own association. I run a very small foundation, and I feel that the people who are there are accountable. Many of them are graduate students, I might add, working on their masters. They are very accountable for the things they do. If they are not, the ruler comes out over the knuckles.

I think this is the way one has to learn to manage.

I don't know that that is a way of answering your question, but I don't know of any other way of answering it.

Senator **Kassebaum**. Well, I know that we have frequently heard that OMB has set certain guidelines, so I don't think it is only Congress that imposes restrictions.

Mr. **Marasciulo**. Oh, that is right. We have just been listening to the ex-director of the OMB being very much concerned about how he ran that operation, too.

I think that one begins to lose a lot of faith in these types of things over a period of time, and, while we like to maintain an element of decorum on these things, we have to go back to that poor fellow who is out in the field, that man or woman, who is really doing a first class job and working very hard. Many times we don't take his judgment.

It is really his judgment that must count.

He is being held accountable. He has the GAO, he has the Congress, he has the State Department, he has so many other people looking over his shoulder. And in the meantime he has a job to do. I think many times we bend him.

Senator KASSEBAUM. I would like to ask you for a moment about the Philippines.

You mentioned that aid there was from government to government, with AID bearing 50 percent of DA project costs.

Would that not have been a good opportunity to attempt a joint venture? The problem in the Philippines, it seems to me, was not so much state-ownership as cronyism.

I don't know what our aid efforts are going to be now in the Philippines, but it seems to me we should give some careful thought to what would be most effective.

I wonder if more joint ventures might not be preferable to so much government-to-government aid.

I don't know. But when you look at the way that the Japanese operate, they seem to construct their efforts in a way that leads eventually to very successful trade opportunities.

I wonder if we can, perhaps, take some lessons from this.

Mr. SCHWARZWALDER. Madam Chairman, when you used the term "joint venture," did you mean U.S. Government and the private sector or for instance PVO's specifically?

Senator KASSEBAUM. I meant private companies, either here or in the Philippines.

Mr. SCHWARZWALDER. Historically, the program there was one that was very oriented toward the rural areas and was very oriented toward small projects, if construction was indeed involved. It was generally, as I mentioned, that the costs were reinbursed to the government after they were expended and a tangible product could be seen, like a rural road, for example.

There were some very good reasons for that, and some of them had to do with dealing with corruption.

In terms of the major sources of corruption in the Philippines, large-scale construction projects were certainly one of them. I always felt that I could sleep comfortably at night knowing that the AID portfolio did not have any programs that fell under that category. The largest single construction activity was $1 million, and the next one was like about $400,000 or $500,000.

The program was intentionally not for large, capital-intensive activities.

Also, to the extent that infrastructure was a part of the activity, much of it was undertaken within a framework of a broader objective that had to do with trying to decentralize decisionmaking from Manila out into the rural areas. It was a whole philosophy that had to do with moving the decisionmaking process for development activities outside of Manila.

Of course, I cannot speak for the current thinking of the AID mission since I have been away for several years. But I do not believe there are many large-scale capital projects being considered. Possibly under the ESF program there might be some. Without that kind of capital intensive nature, I think the joint venture, in terms of U.S. companies, those prospects would be very limited.

On the other hand, I think the opportunities for cooperation with PVO's and the private sector is very great. It was great before the change in Government. One of the activities that I felt most satisfied about when I was there was the development of initially a $5 million program of activities, of grants to private voluntary organizations, which, as I left, then was increased to $10 million because of the success that it had.

Senator **Kassebaum**. What were they doing?

Mr. **Schwarzwalder**. Mostly rurally oriented agriculture, rural development, alternative energy, health care delivery, and education.

The point that I think is very exciting is this. I think the Philippines is perhaps one of the few countries outside of Latin America where you find such a vibrant, indigenous PVO community. So more than half of the grants and more than half of the dollar value went to Filipino PVO's. In fact, the plan in the second tranche was to increase that.

I think in many other countries, without that sort of base, we tend to think of PVO's almost uniquely in terms of American PVO's. They, of course, have a great deal to offer. But where you can find solid, indigenous PVO's, believe me, they will take very seriously a grant of $100,000 or whatever, and look after it in most cases very, very intensely, and probably more so. Because that $100,000 is equivalent to several million dollars in terms of reference of a larger organization.

I think under the new situation in the Philippines, certainly there are many more opportunities for private sector involvement. Certainly the framework, as I understand it, of the Aquino government, involves much more privatization and divesting of many of the state-owned enterprises.

Where AID would fit into that comfortably, I do not know. It would certainly take some serious reflection. But, within the PVO community, I think right away there would be many opportunities to continue the kind of work that was started prior to the change in government.

Senator **Kassebaum**. Thank you.

Mr. Marasciulo.

Mr. **Marasciulo**. Madam Chairman, if I may say so, there are a number of these, and I might give you an idea of one that AID is involved in at the moment.

We are very much concerned about the diminution of dollar income in the Caribbean as a result of the demise of the sugar industry in that area. We are now in the process of trying to revive the cocoa industry, working with Hershey Foods—which, as you probably know, is a corporation run by orphans—AID and a number of other PVO's, including ours, are working hard in developing small, farmer cocoa plots. We started first in Belize and are now in Honduras. We are also in St. Vincent, Grenada, Trinidad, and we are going into Costa Rica and Panama. Hershey itself is donating the technical assistance and the marketing. AID is providing a good deal of the financial assistance. The countries involved are donating the land for the small programs. It is a very innovative program.

The credit for this innovation goes primarily to the mission director in Belize, who thought this idea was a great one to put together. We started there 5 years ago, and it is now spreading to the Caribbean, to where we have the whole cocoa association of the United States and Europe soon to be putting on a major symposium in trying to increase the dollar earnings of the small farmer. Cocoa can only be grown effectively by small farmers.

Hershey has done an absolutely yeoman's job on this in providing all of the technical assistance. They do not really want to create a united fruit or a standard fruit company town overhead arrangement. Theirs is a desire to really increase the availability of the product. If you look at the futures for cocoa, and if you want to make some money in the next 10 years, it is all on its way up. [Laughter.]

It is clear that that is what is happening.

Senator **Kassebaum**. I think that is an excellent example of some of the best things coming together.

On that note, maybe we had better close for today.

Thank you very much. I appreciate your testimony and your patience.

[Whereupon, at 5:17 p.m., the hearing was adjourned to reconvene at 9:35 a.m., Thursday, April 24, 1986.]

A.I.D. OVERSIGHT

THURSDAY, APRIL 24, 1986

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met at 9:35 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Nancy L. Kassebaum presiding.

Present: Senator Kassebaum.

Senator KASSEBAUM. The hearing will please come to order.

I would ask the panelists to take seats at the witness table, please.

Before I introduce the first panel, I would like to make a few comments.

Today is the fourth, and final, day of the Senate Foreign Relations Committee oversight hearings on the Agency for International Development.

Over the past 3 days, the committee has received a great deal of thoughtful testimony regarding the design, implementation and evaluation of AID programs.

These presentations have given us a clear indication of the way in which AID operates and of the various internal and external forces which influence its performance. Such information provides the basic background needed to evaluate how our overseas development activities can be made more effective and efficient.

It is my hope to take this process one step further this morning by hearing from several witnesses who will suggest alternate ways in which aid programs might be structured.

In addition, the AID Administrator, Mr. Peter McPherson who opened the hearings, has agreed to return today to offer some closing observations and to make specific policy recommendations.

Before calling the witnesses, I would like to take this opportunity to share a few reflections about the problems and issues which have been identified over the past few days. There have been times when I have been reminded of the incident in "Alice in Wonderland," where Alice became lost and asked the Cheshire Cat which way she should go, and the cat said, "It depends on where you wish to get to."

Perhaps more questions have been raised than answers provided during the course of the last several days. Nevertheless, several important themes have been identified which I believe are worthy of further committee attention.

Specifically, we have heard a great deal about the external constraints under which AID operations. Congress, while not the sole culprit, has been the focus of much of the discussion in this regard, and I might add that I think justifiably so.

It seems that somewhere along the line, a basic mistrust of foreign aid has tipped the balance which should exist between accountability and flexibility. To some extent, this congressional mistrust reflects public sentiment and images of our foreign aid program.

Certainly, Congress would be neglecting its responsibilities if it did not hold AID accountable for its overseas activities. At the same time, we have overreacted in some cases.

Take, for example, congressional notification requirements, which force AID to contact four congressional committees every time it wishes to change any of its projects.

Last year, 849 of these notifications were submitted. The agency is justified in noting that these requirements are far more onerous than those applied to any other Federal agency. I am not convinced that placing agency activities under such a powerful microscope serves any of our interests very well.

Given the sensitive nature of foreign aid and the substantial interest in it, I do not believe it is practical to repeal congressional notification requirements, although I believe a good case could be made for doing so.

It seems, however, that we could develop some reasonable criteria for limiting the number of cases in which notification is required.

Several other congressional mandates serve to reduce AID's flexibility and are also worthy of reexamination. I believe we should consider placing AID funding on a 2-year cycle, so that the agency has sufficient time to negotiate project awards and to engage in the long-term planning so essential to successful development efforts.

Under the current funding arrangement, AID has, in effect, 6 months in which to allocate its funds, placing it at a distinct disadvantage in program negotiations.

Moreover, AID programs include a bewildering array of earmarks and set-asides. Superimposed upon this are specific functional accounts. These accounts may or may not coincide with development priorities, and they serve to fuel debates over the categorization of specific projects and the division of functions within multiple purpose projects.

To add to the confusion, different requirements come into play, depending upon whether development assistance or economic support funds are being used. I believe it would be useful to explore ways in which these two programs could be coordinated under a consistent set of guidelines.

There are many reasons for these specific designations, and many of these reasons are good and valid ones. I think, however, that we need to look at their collective impact and to determine how these limitations can be pared down.

Serious consideration should be given to eliminating set-aside requirements altogether. In addition to these specific areas in which AID administrative flexibility is limited, testimony before the committee has touched upon several general policy considerations which I think deserve further exploration.

It is clear, for example, that most development efforts would be more effective if they were maintained over a longer period of time. Yet, most AID projects are established for periods of only two or three years.

In addition, AID personnel are transferred from country to country every 2 to 4 years, and project continuity suffers as a result.

Further attention needs to be focused as well on donor coordination among individual countries, and on making sure that projects are sustainable by a host country once AID assistance has ended.

Finally, I think we should give some thought to alternative ways in which our programs could be structured. Should we, for example, concentrate on doing those things which we do best, such as communications systems and road construction, and not attempt to stretch limited resources into all areas of development activity?

By the same token, we might want to consider refocusing our efforts from government-to-government assistance toward joint ventures with American businesses and indigenous populations.

My remarks have covered a range of possibilities, including some which are relatively modest, and some which would require a dramatic change in AID operations.

As I noted at the outset, there are more questions than answers.

This series of hearings is the beginning of what I hope will be a productive discussion of our development objectives and of the best means to achieve them.

I have greatly appreciated the excellent cooperation provided by AID in developing these hearings and look forward to maintaining this working relationship. I look forward as well to working with members of the Foreign Relations Committee and other committees with AID jurisdiction to achieve constructive change.

It is a particular pleasure this morning at this concluding hearing to have a group of very distinguished panelists. I would like to introduce, from my left to right, Mr. Lawrence Harrison, vice president for international development, National Cooperative Business Association; Mr. Mark Edelman, assistant administrator for Africa, Agency for International Development; Dr. John Mellor, director, International Food Policy Research Institute; and Dr. Goran Hyden, professor, Dartmouth College.

It is a pleasure to welcome all of you.

Mr. Edelman, may we begin with your testimony.

STATEMENT OF HON. MARK L. EDELMAN, ASSISTANT ADMINISTRATOR FOR AFRICA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Edelman. Thank you, Madam Chairman.

I have been looking forward to this hearing for some time and the intent of what you are trying to do as an opportunity to provide a better understanding of what AID's problems are.

I was sitting here smiling through your opening comments because you have taken half of my testimony away from my. We are in agreement on much.

Let me just proceed thorugh some of my comments. I would certainly say that I agree with most of what you have just been saying.

I would like to base my comments on a broader perspective, as a practitioner of government rather than through the role I have as assistant administrator for Africa, only drawing on Africa for examples.

I have been in State government, in the executive branch in three or four different agencies, in OMB, and I have worked in the Congress. So I have been in two levels of government and in two different branches. It is with this background that I consider myself a student of government and with this experience I would like to make my comments.

I would like to focus in my prepared testimony on three interrelated themes.

First, I have never seen an organization pulled in as many different directions, by as many different organizations, with as many different constraints, as AID.

Second, AID is faced with short-term resources to address long-term problems.

Third, I think AID confronts a philosophical clash with Congress and various interest groups.

Specifically, AID's philosophy calls for decentralized programming and decisionmaking under the belief that those closest to the problem, the host country nationals and mission personnel, are best able to identify development priorities which best address needs and implementation capabilities. Congressional earmarks and interest group lobbyists reflect the opposite theory, that central authorities most removed from the development problems are better able to establish priorities.

Let me turn to each of these in turn.

There is a constant cry in Washington from Congress, from interest groups, external and internal to AID, and, Madam Chairman, groups inside of AID are part of the problem—it is not just those outside, by any means—from other agencies and from host countries, for AID to constantly do more—do more for PVO's, do more for title XII institutions, do more for historically black colleges and universities, do more for 8(a)'s, do more in population, do more for children, do more in agriculture research, do more for malaria research, do more in institution building, do more for the environment, more for country X, Y or Z, more information to the Congress, more information to the public and the press—the list just goes on and on and on.

For whom or for what are we do to less? The answer so far is for no one or for nothing.

AID, like all of government and life itself, is a zero sum game. To do more in one area means to do less in another. That applies to both dollar resources and human resources in time expanded to prepare for whatever it is we have to do.

Yet, too few people are willing or able to recognize this commonsense truth. But, then, as Voltaire declared, "common sense is not so common."

There are so many legislative and interest group priorities that the term "priorities," when applied to AID, has lost most of its meaning.

How does this failure to agree on what AID should not be doing manifest itself? First, it is in project proliferation. There are simply too many projects, especially in Africa. In Kenya, for example, there are over 600 different projects from all donors. There are almost that many—I would say from 400 to 600 in Zambia—and the list goes on and on in other countries.

Neither we nor the host countries can manage that number of projects. We cannot set priorities, we cannot track them, we cannot manage them.

The recurrent cost implications from all of those projects are just staggering and are contributing significantly to the budget problems of the host countries.

It is difficult to focus on implementation or even design of programs when we have so many of them all over the continent. The prime minister of one significant country told me specifically the last time I visited his country, which was only in October, "We don't need more projects."

I raised the same concern with the leader of one of the major African countries and his finance minister. Africa does not need more projects. What Africa needs today to solve its problems are policy reform, structural reform, and nonproject assistance.

The finance minister readily agreed with me but said, "But we have a problem because so many of the donors say it is either this project or nothing, and it is difficult to turn them down."

Africa, at least, does not need more projects.

The second phenomenon is that the projects are too complex. Integrated rural development, which fortunately we have gotten away from, is an excellent case in point. We had one project that tried to do everything for everybody. As a result, it failed.

We have to keep them simple and focus on one or two key priorities in each project. I think we have made some progress in this regard.

The North Shaba project, which I will mention again later, in Zaire, is a case in point. It started out about 10 years ago as an integrated rural development project to serve all kinds of interests. The Inspector General went in 4 or 5 years ago and recommended that we terminate the project because it was such an ungodly mess. We lopped off all types of functions, simplified it mostly to rural road construction and agriculture hybrid seed maize development, and it has been a fantastic success.

All of these competing items also mean that there is an inability for us to focus and plan. We hop from one concern to another, we, the managers, and you, the Congressmen, who are bombarded by concerned people. We are bombarded by questions from every interest, with people asking, "What are you doing for me?"

I sometimes feel a bit like Monte Hall in "Let's Make a Deal," with everybody jumping up and down and saying, "What about me, Monte, here I am," and coming at us from every interest and every side. [Laughter.]

I just spend too much time fighting off the special interest brush fires, both, again, within AID and outside of AID. I sometimes feel like I am trying to drive about an eight-horse chariot. But the horses are not lined up in a row vertically, but rather are lined up horizontally, with each one pulling in a different direction, so that you spend your time not deciding where you should go but just trying to keep the beasts together.

Clearly, effectiveness and impact suffers from all of this. It is almost what I would call the "Johnny Appleseed" approach to development, where we merrily go across the continents, just dropping projects all over the place, without trying to figure out what is best or saying no.

I have made in the case of Africa I think some progress in all of this.

I have cut back the number of new starts in Africa from about 63 in 1985 to 33 in 1987. We have tried to categorize missions into three categories, and limit, by size and importance, the number of projects and number of sectors that the missions can be in. I believe on Tuesday we gave you a copy of our agriculture research plan, which also tries to direct agriculture research into key crops and into key countries and set up some priorities in our agriculture research.

On the problem of the short-term resources for long-term problems, as you said, and as I believe Dr. Hyden titles his book, there simply are no short cuts for development. It is a long, slow, difficult, tedious process.

It takes 20 years to develop a hybrid. It takes years to train people and to develop institutions that can do the development job.

We have to change mindsets that are due to cultural differences, which we frequently do not understand. Planning ahead is not an ingrained thought process in much of Africa. It is a Western concept. The idea of private sector development and what you and I may think of as private sector is not inherent in the Arab world, where private sector is mostly a trading type of concept, not an investment/planning for the future type of concept.

In Zaire, at the time of independence, in 1960, there were only six Zairean college graduates. From that beginning we cannot expect to have progress with great rapidity.

We have not been in the development game very long in Africa. I believe we put into the record on Tuesday a paper that my staff did which spells that out. We have been in and out of countries over the past 20 years. We have not had a sustained effort in most of them. We have spent most of our resources in Africa and have only really begun in the last 10 years. In 1974, I believe we were only in 12 African countries; since that time, we have gotten in and out of some of them, and today we are in virtually every country in Africa.

Most projects take at least 5 to 10 years to do, and you cannot expect short-term results.

To confront this, what resources do we have?

We have, first of all, annual appropriations with all of the funding uncertainties that go along with an annual appropriation.

It looks, from what everybody says, that in 1987 Congress is talking about is cutting the foreign aid budget, so here we go again. We will be getting out of countries, chopping up projects, probably in midstream, with some radical changes of direction—just as we finally are developing momentum in Africa and elsewhere in the world.

We have had sudden shifts on program levels and on earmarkings.

We have focused on country levels all too often, instead of focusing on country programs.

We lack flexibility due to the functional accounts, and the annual appropriations process, as you have stated, interferes greatly in policy development, as does earmarking, where whoever has the earmark knows that they can wait us out on policy dialog and changes.

Compare, if you would, as an example, AID with DOD, as far as the appropriation and authorization process goes. In the missile procurement Air Force account, for example, one with which I used to work years ago when I was at OMB, the appropriation is for $8 billion and it is appropriated for 3 years. By contrast, we will get $100 something million on a 1-year appropriation, for example, in the health account in AID.

That kind of flexibility, which Congress seems to be willing to provide with $8 billion and is unwilling to provide on sums so substantially less, is a bit curious, to say the least.

We have a problem, as you have stated, of staff turnover.

We have 2-year tours, and that means constantly changing staff, not enough time to design and implement projects, and, therefore, accountability is extremely difficult.

There is, of course, the flip side to that. It is difficult to expect people to live a long time in some of the harsh climates in Africa and elsewhere. There are problems with schooling. There are problems with living conditions, and unfortunately these days, there are more and more problems with terrorism. So it is not an easy answer. We have made some progress, but it is a constraint on trying to do development with the short-term manpower.

Finally, another short-term constraint is the patience of the Congress and the American people. I do not believe that the American temperament is suited to development. Americans expect quick answers to problems. President Kennedy said that we can put a man on the moon by the end of the decade, and, indeed, we did it. If there is a problem in the United States, there is a solution to it, and it is usually a technical solution, so we march out and have it done. We are not used, as a people, to the type of work that is involved in development, to the type of tediousness, the trial and error that goes on in development work.

We want quick answers and quick results and do not want to be told that it is a complex problem and that there is not a simple solution.

On the issue of the philosophical difference, I strongly believe that development in Africa, as well as elsewhere, is the responsibility of each recipient country. I am not responsible, as the Assistant Administrator for Africa, for the development of Africa; nor is AID; nor are you or anybody else in this country.

Africans are responsible for their own development. They have to set the priorities according to their needs and what will work best in their societies. We cannot do that job for them, and, indeed, we should not do that job for them. When we tried to do it in the past, too often we botched the job.

African leadership now almost universally recognizes this. In speech after speech, the African leaders point that out.

Only a few weeks ago, in fact, in Addis Ababa, at a meeting of the Economic Community for Africa, in preparing documentation of the steering committee for the upcoming U.N. special session on the African economic crisis, Minister Ibrahim Fall, the Senegalese Foreign Minister, said, "The development of Africa is essentially the responsibility of Africans themselves."

That kind of statement is being repeated over and over and over again by Africans, which simply was not the case even 2 years ago.

AID works closely with Africans in developing country strategies and programs, in trying to help them set their own priorities, and in trying to help them figure out what will work best in their unique environment.

At the same time, we find in the reflection of the appropriation process, and the authorization process, and the way Washington works, that the opposite view seems to prevail here; that people 6,000 miles away from the reality seem to know what is best. With functional accounts and earmarks, programs are conducted according to what is available, rather than what is most needed.

Let me take, as an example, the problem of health in Africa.

Health is easy to understand. It is very appealing from a humanitarian point of view, and the problems obviously are great. But it simply is not a top priority in Africa.

There are very weak delivery systems. It is not cost-effective because of low population densities. It is extremely difficult to maintain health programs. There are very high recurring costs. As an example, in Rwanda, the Government of Rwanda spends only $1 per capita on health. If you wish them to spend more, tell them what you want them to spend less on. They do not have the money and the priorities are not there.

In the documentation that I just mentioned for the U.N. General Assembly special session that is upcoming, which was prepared at ECA in Addis, the OAU documents barely mention health as a concern to Africans. And yet, we keep raising health funding and cutting agriculture development, which all Africans declare today is their No. 1 priority.

I am not saying that health is not important. It clearly is important. What I am saying is that in a zero sum game, other things are more important.

If you meet with African leaders, and, indeed, if you meet with any interest groups as well, ask them this: Do they want more health support if it means less support in something else? Do not ask them if they want more for health. They are going to say yes. But if you ask them what do you want to give up of what AID is doing or what the donors are doing in order to have more health, I predict that you are going to get universal answers that say they do not want more health money if it means giving up something else.

I think those are the kind of questions that we should all be asking, not more in the best of all possible worlds, but, if more, then what should be less.

This philosophical conflict is somewhat similar to the categorical versus block grant argument that you face all the time in U.S. domestic affairs. Who should set the priorities: Should it be the Governors, the mayors, or should it be Congress?

When I used to work for Senator Danforth, he would argue very strenuously against the concept of all of these individual categorical grants for people on welfare, such as a housing allowance, or a Food Stamp allowance—all of these different kinds of allowances, that each one should be categorized, instead of giving them a block grant for basic support. He would say, "Just because they are poor doesn't mean they are stupid."

Well, Africans are not stupid either. Just because they are poor in development does not mean that they are stupid. They have some ideas of what they are doing, and our approach here seems to say that we in Washington know better than what they know.

Let me also comment a bit, if I may, on one of my frustrations in this job, and one of yours as you have gone through this, which is the AID bureaucracy.

It is one of the most incredible bureaucracies I have ever seen. It is incredibly sluggish compared with others that I have worked with, although not as slow as some foreign and international agencies. I have also worked for 2 years at State in international organizations, with the United Nation, and that makes almost anything else seem streamlined and efficient by example.

But why is AID perceived as such a leadened organization?

First of all, it has no friends to protect it. It really has no friends in court. It is uncertain of its support, it is uncertain of what is going to happen to it from day to day.

Let me compare that, for example, to the abuse that may have come about regarding the welfare mother who was found to be driving around in a Cadillac. There may be a momentary scream, but does anybody talk about radically changing the welfare laws or cutting welfare in half because of that? No, they don't, because everybody knows politically what will happen.

There is a very strong welfare lobby in this country. And I am not being critical of that, by the way; it is just a fact. So, when these kinds of things happen in various domestic programs, there is a strong lobbying group that rallies around to protect it.

That does not happen with the case of AID.

Everybody second-guesses it. Congress, the GAO, interest groups, the press, other agencies around town, even all kinds of people within AID are always second-guessing whatever everybody does.

We are constantly concerned about what Jack Anderson is going to say if anything at all fails. It just gets into the whole mentality of the organization that makes it very cautious in a lot of its paperwork and a lot of its documentation.

We did take great risks, for example, in the Sahel. We poured in over $1 billion in 10 years' time. Some projects failed, however, because we tried to do too much, too fast, without fully understanding on-the-ground realities.

We were pushed to spend money by all types of Americans. We were pushed by the donors. We were pushed by Africans. We were pushed by ourselves—that is, the agency itself, wanting to do something, but doing it too fast.

Now, because we took that risk and some of it did not work—although I do not think it is as much of a failure as others claim—we are being criticized because we gambled too much too fast.

We cannot have it both ways. Either you take chances and you have some failures and people back off and recognize that, and ride with it, or the organization will continue to try to protect itself and be less risktaking than it is.

AID, I believe, sees itself surrounded essentially by a sea of sharks. People from all sides in the public are always willing to go after it. It is easy prey because it does not have a domestic constituency.

We will continue to have failures no matter what we do because failures are inherent in development and nobody and no organization is perfect. For every error that is discovered, AID, the Congress, or somebody else will probably propose putting one more check into place to prevent that from ever happening again, which means one more signature that you are going to need or one more checkpoint you are going to have to go through.

To cut down more on the bureaucracy in AID, as anywhere else, fundamentally means how much risk are you willing to take. How much of the taxpayers' money will you be willing to let leak out the bottom through oversight or occasional mismanagement or occasional corruption that exists worldwide by the very reality of human nature of projects going wrong?

How much risk are you, as chairman of the African Subcommittee, willing to take in order to compensate?

Again, it is a tradeoff. It is a zero sum game.

AID, I think, probably has overcompensated for that, but there is no answer, I think, as to how far you should move in the other direction, of how much risktaking should you have.

AID has, however, been on the forefront, I think, of most of the donors in many ways. In policy dialog, it is clearly out in front of every other donor, with the possible exception of the World Bank. The AEPRP, the African Economic Policy Reform Program, is the father of the World Bank's Special Facility, and is now being emulated everywhere else. We are the leaders in nonproject assistance. It is we, in fact, who are trying to push the World Bank and other donors in that direction.

Most recently, the Baker Plan, to try to get the World Bank and the IMF to work together in a development framework for Africa and for the Third World, is an extremely innovative approach, an innovative way to address the problems of Africa and the Third World.

In conclusion, Madam Chairman, let me say that what continues to amaze me in my 2 years in this job is that, despite all of the problems you have heard about for 4 days—problems in development, problems in an incredible bureaucratic process, problems with the special interests and in getting the message across—AID retains the most dedicated, decent, innovative, and inquiring people I have ever worked with. It is a wonder to me that they stick with it, try to improve the agency, and continue to try to help the LDC's.

I think it is a tribute to the optimism of the American spirit.

They also stick with it because they know that U.S. tax dollars have, in fact, made a difference. I am convinced of that.

In Africa, for example, the North Shaba Project in Zaire, which I mentioned earlier, it is a 10-year project, and as a result of this project, maize production was increased from 5,000 tons to 55,000 tons on the course of this project. I have been over the roads that we built. I have seen the improvements. It benefits 150,000 people in a 150,000-square-kilometer area. The change is noticeable as soon as you enter the area. Economic growth is occurring throughout that whole area of Kongolo and North Shaba.

In Guinea Bissau, a tiny little country in West Africa, because of some pest research and some training that we have done, cassava, the main staple of the people of this country, will increase probably from about 25,000 tons this year or last year to about a fivefold increase, because we have helped eradicate a parasite which attacks cassava plants.

In Malawi, I have seen the most marvelous water project you can imagine. It is gravity-fed. It is used as an example worldwide of success, where people in a 100,000-square-kilometer area, a 25-mile radius, now have clean water to drink where they did not have it before.

In Sudan, you have heard stories already about sorghum, the HD-1, the new sorghum variety, that has led to a remarkable increase in sorghum production in Sudan. That has made a difference because of AID.

In Zimbabwe, we have helped in agricultural projects there to the point, along with government policies in the right direction, that the small producer there, who before was producing about 10 percent of the maize production, today is up to 40 percent of the maize production.

Jobs in Zimbabwe have increased about 2,500 because of our CIP programs there.

Policy changes because of AID are sweeping the continent. Literally, there is only one country that I can think of which is moving backwards in the area of getting rid of parastatals, of moving toward the private sector and freeing up the productive enterprises and productive abilities of their citizens, the exception being Ethiopia.

There is nothing more that we can do to help Africans than to help them reform their policies.

In the case of Somalia, to take one example, the Government of Somalia decontrolled all farm-gate prices and in the following year, agricultural production went up, in the case of sorghum and bananas by 40 percent.

There is no project we can do to get an increase in production like that. There is no particular project that we can do that has caused the increases in Malawi maize or in Zimbabwe, or what we hope will happen in Zambia, than getting the policies right, to provide the right incentives to the farmers.

We have made a difference.

There are no easy answers to some of the problems in development and the excess of outside second-guessing into what are basically good systems. Some of the changes you have proposed will be helpful. But they won't solve the problem.

As Reinhold Neibuhr said, "Democracy is a method of finding proximate solutions for insoluble problems."

What you see, Madam Chairman, at AID is democracy with a vengeance.

Thank you.

Senator KASSEBAUM. Thank you very much, Mr. Edelman.

Mr. HARRISON.

STATEMENT OF LAWRENCE E. HARRISON, VICE PRESIDENT FOR INTERNATIONAL DEVELOPMENT, NATIONAL COOPERATIVE BUSINESS ASSOCIATION

Mr. HARRISON. Thank you.

Few people are happy about the pace of Third World development over the last quarter century. The concern and frustration are most intense with respect to Africa, where economic, social, and political progress have been scant, a condition dramatized by the recent famine. Latin America has done better, but distribution of wealth, land, income, and opportunity continue to be highly inequitable.

Important progress appears to have been made with respect to democratization in Latin America, but anyone familiar with Latin American history can only cross his fingers that the democratic experiments will endure.

Only in Asia do we find several countries where significant, enduring economic and social progress have been made. There the principal concern is that authoritarian political systems not arrest the economic and social momentum.

The frustration may be felt more intensely in the developed countries of the West than in the Third World itself. Most people in Third World countries know little else but a struggle for survival. They are also accustomed to injustice and authoritarian relationships. Our expectations are higher, both for ourselves and for others, because we are accustomed to progress and because our societies are, by comparison, dynamic, open, and just.

In the early sixties, expectations were high in the United States. We had not really turned our full attention to the problems of poor countries. We were flushed with the success of the Marshall plan, where, I might add, we were dealing with progress-prone societies much like our own; and we were convinced that a combination of Yankee ingenuity and Yankee resources would make a lot of difference—and quickly.

The Alliance for Progress captured the essence of that optimism. We were going to make Latin America safe for democracy in a 10-year period.

After supplying a lot of money, know-how, and dedication over 25 years, we, and other countries and institutions of the donor community, feel that we have fallen substantially short of what we had hoped for, even expected. This has led to "development fatigue"—people getting turned off by the subject, as is apparent from the intense interest in development in our universities 25 years ago and the scant interest now, to say nothing of the substantially higher percentage of our GNP devoted to development in the earlier years.

The frustration has also led to a search for scapegoats, and the targets nearest at hand have been the development assistance institutions.

In our country, the Agency for International Development has been the favorite culprit. It has been indicted, according to the predispositions of the indictor and the vogue of the moment, for: too much attention to macroeconomic growth; too much attention to equity; too much emphasis on government intervention; overdependence on private enterprise; insufficient attention to the grassroots; insufficient attention to government policies; excessive research and theory; excessive pragmatism and short-term focus; too much attention to individual projects; too much attention to sectors; and always, allegations of poor management, clumsy and unresponsive organization, and inept and unmotivated people.

I would describe these criticisms as understandable nonsense. They are understandable because they are rooted both in the frustration of a can-do society and a considerable ignorance of how different underdeveloped societies are from our own.

They are nonsense, in part because they attack an institution which, by the judgment of peer institutions—and I know no better place for a judgment—is creative, resilient, responsive, and effective.

If I may add a personal note, after 20 years as an AID employee and 4 years dealing with it from the outside, my own assessment is that it handles its most difficult assignment as one would expect of any American institution, public or private—with seriousness, generally good organization and people, resourcefulness, and a commitment to getting the job done.

A number of special factors make AID's job especially difficult, not the least being a board of directors with 535 members, few of whom are noted for humility, patience, or reticence.

I might add that two of my colleagues have since pointed out quite correctly, by the way, that the number 535, does not include Congressional staff. [Laughter.]

Senator **Kassebaum**. But it should. [Laughter.]

Mr. **Harrison**. But the criticisms of AID and other development assistance institutions are nonsense for a far more important reason. They reflect the belief that the real problems of underdevelopment are in those institutions when the problems are, in reality, profoundly and stubbornly rooted in the underdeveloped countries themselves, above all in the minds of their people.

That is what we did not adequately appreciate 25 years ago.

The most important and difficult aspect of development is not building roads, dams, education and health structures, and credit institutions. Nor is it training engineers, economists, teachers, doctors, farmers, and businessmen. Nor is it economic stabilization or the formulation of sound development policies.

All those activities, useful to be sure, can be realized with the help of the money and know-how of the development assistance institutions. But, by themselves, they cannot assure significant and enduring progress, as indeed they have not in most cases, because they operate in societies whose values and attitudes are formidable obstacles to progress.

In the case of Latin America, those values and attitudes derive from traditional Hispanic culture, which nurtures authoritarianism, an excessive individualism, mistrust, corruption, and a fatalistic world view, all of which work against political pluralism and economic and social progress.

That culture also attaches a low value to work, particularly among the elite, and discourages entrepreneurship, thus further braking economic growth.

I do not know Africa, but I served for 2 years in Haiti, and people who know Africa assure me that Haiti is basically an African country. And I can assure you that many of the same cultural obstacles that exist in Hispanic America are found in abundance in Haiti, particularly an authoritarian view of human relationships, mistrust, fatalism, and corruption.

What this means is that significant, enduring change—the kind we had hoped to bring about over the past quarter century—can only come about from within. It can be helped from the outside, but the impetus and the management of the process must come from the underdeveloped countries themselves.

And the focus must be on changing the way people see the world, themselves, and their relationships with one another, above all.

In most underdeveloped countries, these values and attitudes have changed little over the centuries. Latin America's condition is eloquent testimony to the persistence of many of the values and attitudes brought to the New World by the conquistadors in the 16th century. The same has been substantially true of Spain itself, at least until the last decade or two.

Cultural change is far more difficult and slower than the kinds of problems the underdeveloped countries and we have been addressing during the past 25 years. Little is known about the value and attitude obstacles to progress, and less is known about how they can be changed. Moreover, the whole subject makes us uncomfortable because it implies that some societies do better by their people than others, an assertion that for me is patently true, but one that goes down hard for many people.

Cultural change may be impossible if societies convince themselves that the responsibility for their unhappy condition resides outside their borders. This is widely true in Latin America, where many politicians and intellectuals, abetted, I might add, by some of our own politicians and intellectuals, are convinced that Latin America is poor because of "Yankee imperialism," a self-defeating and paralyzing view that the facts simply do not bear out.

It is also patronizing of the Latin Americans, who, unfortunately, have been too willing to be patronized.

What are the policy implications of this diagnosis that underdevelopment is, above all, a state of mind? Here are some that occur to me.

We have to suppress our national tendency toward impatience and substantially lower our expectations for progress in the Third World.

We have to dampen our national can-do attitude and understand better the limits on our power to effect change in other societies.

We have to suppress our national penchant for guilt, particularly as it applies in Latin America. We do not help Latin America by assuming responsibility for its condition.

We should be as helpful as possible to countries who assume responsibility for their own development, particularly when they recognize the importance of cultural obstacles and want to do something about them.

Some institution—the U.S. Government is obviously not the right locus—should encourage research on national values and attitudes and their impact on development. The research should emphasize what can be done to accelerate constructive cultural change, for example, through leadership, the media, educational and religious reform, changed management practices, and perhaps most important of all, improved child rearing.

Finally, AID and other development assistance institutions should attach an especially high priority to activities which encourage progressive values and attitudes. Educational reform is an obvious candidate. So are cooperatives and other associative activities that, by teaching the value of trust and cooperation, modify traditional world views. I might add that I reached this conclusion long before I had any idea that I might be working for the National Cooperative Business Association.

I want to close by saying that I recognize that there are numerous noncultural obstacles to development that also have to be addressed. I also want to repeat my appreciation of the monumental difficulties in accelerating constructive cultural change. But, to quote the last sentence of my book, if underdevelopment is, importantly, a state of mind, there is no choice but to try.

Thank you.

Senator **Kassebaum**. Thank you very much, Mr. Harrison.

Mr. Mellor.

STATEMENT OF JOHN W. MELLOR, DIRECTOR, INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

Mr. **Mellor**. I want to thank you very much for giving me this opportunity, Senator Kassebaum, and would say how much I agree with the comments which you made and particularly with Mr. Edelman's comments. I see a good deal of complementarity there.

I want to start my comments by saying a little bit about success.

Most of Asia is moving at a pretty rapid pace at this time. We have seen dramatic improvements in levels of living and growth rates in East Asian countries. We have seen the same thing in essentially all of the Southeast Asian countries, with the exception of the Indochina group and perhaps the Philippines. And we are seeing some indications of takeoff in the very poor, very low income South Asian countries.

In fact, I would argue that the great prospect over the next decade for a real push to growth in the world and in the developing countries in particular probably now lies in South Asia. I want to make a comment later about what role the United States might play in that.

In the success in Asia—and I think it is very substantial—the United States and the foreign assistance program deserve a tremendous amount of credit. I think we all realize that they got several things right in Asia. One is they have used agriculture as the basic foundation for building much more rapid overall growth. The "Green Revolution" has been very substantial in Asia and it has given a real boost to growth in the rest of the economy. We can learn a lot from that.

The U.S. foreign assistance program played a very substantial role in those processes. I would like to indicate what I see as the key elements of that and then contrast that with what went on in Africa in the 1970's, where I think we took a very different approach.

First of all, agriculture was central to our foreign assistance programs in Asia. It is clear that through that emphasis, we got agriculture moving or played a role in getting agriculture moving in Asia.

I would like to say particularly in the context of the chairman's part of the country that we have seen these Asian countries which have gotten their agricultures moving very rapidly, becoming very rapidly growing markets for American agricultural commodities.

What has happened is because agriculture got going, they got their whole economies going. Because these are countries—and I would say the same thing for Africa—where, when laboring class people, working people, have their incomes increased, they spend most of that additional income on food—unlike the situation in Europe and the United States at the present time.

So, when the economy got moving, we found out that enough employment was occurring in those countries so that demand for food went up more rapidly than even what a successful agriculture was able to supply in those countries. We have seen steadily growing imports.

Incidentally, we at IFPRI did some projections of demand for food in developing countries half a dozen years ago. Because of some of the difficulties the United States has had, because of overvalued exchange rates and various other problems in exports, we are apt to lose track of the fact that what 6 years ago seemed like very optimistic projections of imports of food into developing countries are, in fact, being surpassed at the present time. The growth in foreign markets in developing countries has continued to grow rapidly, particularly in those countries which have succeeded in the development process and in which agriculture is playing a very major role.

It is a rather tricky thing. I talk to farmers in this country a lot, having been a farmer once. They do not grasp, at first, this peculiarity, that if you get agriculture moving in a developing country, that is going to give them a better market. But it is rooted in the peculiarity that you are dealing with very poor people who want to spend a lot of money on food, initially. That is a very sharp contrast with us.

The other thing that we did in Asia, after, first, the heavy emphasis on agriculture, was we helped to build national-level institutions necessary to move agriculture. We helped build the agricultural research systems; we helped build the fertilizer distribution systems, which were initially in the public sector and increasingly now, that they have become viable, they are moving into the private sector. We helped build national-level agricultural educational systems that would turn out people who could build national institutions at a very rapid rate, much faster than we could possibly do through foreign assistance alone.

Those efforts took a long time.

One reason we turned away from these approaches to development when we moved to Africa is in the late sixties we were becoming depressed that those efforts were not succeeding. In fact, they were succeeding, and we were just about to have the burst of the "Green Revolution" in Asia built on those national level structures that we had helped to build.

We have lost a decade in Africa because we turned away from success.

Incidentally, one of the problems with AID, with all the pressures on it from the outside, is it sort of moves from one fashion to another from month to month and year to year.

There are underlying things about development that we understand and that do not change from one decade to another. We need to have some constancy.

One of the striking comparisons between Asia and Africa is Indonesia.

Indonesia is one of the Asia countries that started with about the same number of trained people as Zaire and a number of other African countries. But it is a very striking contrast now with most African countries. They have national-level institutions that can do things. That is the product of intense assistance at the higher education levels.

Just contrast the response in Indonesia to high oil prices to that in Nigeria. It is basically a function of many more well-trained people working at the national level.

So we can spot situations something like the African situation in Asia, and we can see that they have done better, partly because they got started 10 years earlier, but even more importantly because they got foreign assistance of the right kind.

The final comment I want to make on the Asian side is a little bit tricky for someone from an international organization to comment on. But the fact of the matter is that the United States dominated the foreign assistance policy in Asia in the 1950's and the early 1960's. Whether or not one likes the details of it, this meant that there was clear leadership and you did not have this extraordinary proliferation of donors and projects splitting up countries, pushing their resources this way and that way.

When we move to Africa, we find now there is no dominant lender in Africa, and we find, essentially, no leadership—or we have found, essentially, no leadership—through the 1970's. Every donor is going off in a different direction—exactly the thing that Mr. Edelman has been talking about.

Incidentally, the proliferation of donors is probably not a serious problem in Asia at the present time because they do have the trained people and actual institutions to get a grip on the situation themselves. The African countries are so short staffed at the center that they cannot get a grip on the situation of such a multiplicity of donors and are being constantly torn. So we need to worry about that, and I am sorry that I do not have an answer except long-term training of people.

Now, to turn particularly to Africa, it seems to me that the two basic problems I have indicated are that, one, we have turned away from building national level institutions—and I am referring to the

1970's. We have turned back, and I think that was quite clear from Mr. Edelman's comments, and I am sure that when Peter McPherson speaks, he will emphasize this also. We have turned back to tying to build these national-level institutions.

The other problem in Africa, as I indicated, is the proliferation of projects and donors. Each individual donor is at fault. They can do something about that. But there still remains the problem of how to deal with the proliferation of donors.

I want to be very clear when I make the case for building national-level institutions—agricultural research systems, which are the absolute foundation of moving agriculture, as we discovered with the Morrill Act in 1863 and so on, in building national fertilizer distribution systems, national capacities to help build infrastructure and so on—that obviously none of these things work in agriculture unless you have local institutions. You are not going to get the political support nationally if you do not have local governmental institutions putting on the pressures. You are not going to raise adequate local resources, you are not going to get proper administration without a local input.

I obviously must believe that, and do. It is a very clear position.

When we talk about foreign assistance from a country like the United States, however, we have to pay attention to where our comparative advantage is. We know something about building agricultural research systems. We can, fairly easily, adapt to building those in developing countries or helping them to build them.

When it comes to working out in the villages, yes, we can do something. I am a great believer in the Peace Corps and organizations of that type. We should be getting our young people out there to help.

But we do not know a great deal about how to adapt to the specific cultural environment of a rural situation. We do not know how to build political systems in somebody else's country at the local level, all of which is so essential.

So, yes, local development is important. AID should be paying attention to it, give what assistance it can, but our comparative advantage lies in working with these national-level institutions.

When you compare the 1970's in foreign aid, when we became big in Africa, with the 1960's in Asia, that is one of the sharp contrasts. In the 1970's in Africa we were out doing these incredibly complex integrated rural development schemes, where we did not know particularly what we were doing. We had no sense of priority, and we were working with local structures we did not understand.

It is extremely important that AID continue its move back into the places in which it has a comparative advantage.

Let me close with a few positive comments about the future.

One, there is no question that foreign assistance in AID, in the World Bank, is moving in the right direction at the present time and it has been for the last several years. We are getting back to doing the things which we are good at, which is building these national-level structures and institutions.

We obviously must concentrate on macropolicy. Macropolicy has been extremely bad in Africa—I think in significant part because of these divisive tendencies from the foreign assistance agencies, something which I hope we are gradually getting away from at the present time.

I want to emphasize, however, that in doing macropolicy, you have to have, of course, a clear, simple position at the top. When the head of AID talks with the prime minister or the president of a country, he has to have a clear, straightforward position about getting your prices right, the importance of markets, the importance of exchange rates, and so on. But that is not going to have an effect in getting development moving unless lots of small elements of policy are lined up as well. This requires intelligent project people and intelligent sectoral people.

Getting your macropolicy right creates a favorable environment for good sectoral policy and good project policy. A macroenvironment is of no use if you do not have good projects at the country level and in the agency.

So, as we work very hard at this macro issue, we have to be worrying about whether the AID missions in the countries, which are absolutely crucial—and, incidentally, AID has a big advantage over most other donors in having strong country missions and people in them who know what is going on in the country because they have been there for a while—those country missions have to be strengthened and they have to have the full range of capacity to help the lower level officials and others in trying to get policy straight right down through the structure.

I have been emphasizing these details of policy, the agriculture research system, how you build that, how you get a good policy for that, fertilizer distribution and so on. A number of people thought that I was denying the importance of the macropolicy. That is not true at all. But since, I think, the macropolicy element is moving in the right direction with good leadership at this point, those of us who are concerned with the nitty-gritty of development have to take advantage of that opportunity and encourage AID in building these kinds of capacities for the details of policy.

So, I think, as we look at the development of the Agency, it seems to me that we have to emphasize the need for the strong missions, continuity in personnel. We need to emphasize the range in policy needs, and we need to emphasize the potential for AID to show leadership in the donor community and perhaps through that leadership help to solve some of the problems of proliferation of donors and agencies.

Thank you very much.

[The prepared statement of Mr. Mellor appears in the appendix.]

Senator **Kassebaum**. Thank you, Mr. Mellor.

Mr. Hyden.

STATEMENT OF GORAN HYDEN, PROFESSOR, DARTMOUTH COLLEGE

Mr. **Hyden**. Thank you, Senator Kassebaum.

I would also like to start by saying that I am most grateful for having been called in to this hearing. I should like to preface my statement by saying that my own comments here stem from my experience both as a researcher and professor in African universities and as representative for a private donor organization, the Ford

Foundation. It is essentially from those experiences that I am now speaking.

I should like to make seven points.

The first is that conditions in Africa over the last 20 years have obviously changed to such an extent that foreign aid is today actually being pursued in a very different context. I do not think that the notion of just more of the same is any longer a valid guideline for pursuing aid in these countries.

We cannot take things for granted as we used to, when we assumed, for instance, that governments were there to maximize growth or redistribute resources in a manner that was indicated in plans or policy documents.

I think the situation today calls for a greater attention to what I would call the policy environment in the broader sense of the word, the institutional setup in which policies are being made. Whether it is a matter of pursuing it under the title of structural adjustment or any other label, that is where the emphasis ought actually to be laid.

The second point refers to what the implications might be of this.

First of all, I think it is fair to say that an emphasis on policy environment, as opposed to just projects or policies, does actually make the choices more difficult. The whole picture becomes, in a way, more diffuse, and choices, therefore, become more difficult to make.

Furthermore, I think that the notion that we can actually pursue our effort mainly through government-to-government aid also comes into question.

Nonproject assistance, as Mr. Edelman talked about earlier on, ought to be given greater emphasis. Strengthening institutions that are actually outside of the government sector ought to be a higher priority, together with the question of strengthening the human resources in Africa.

We need in many of these countries simply to generate or create the demand structures for services.

Agriculture, in my judgment, will not move forward, even if we have talent on the ground, as long as there is not sufficient demand for it. And we know from the experience in African countries that government structures in themselves do not create such demand in a constructive fashion.

We are, therefore, talking about emphasis on institutions outside of government in a much more direct fashion than we might have done in the past.

The third point is that I do not believe that Africa's problem is a shortage of human talent or human skill. It is primarily a question of institutional imbalances.

It seems to me that in thinking further about how aid should actually be pursued, it is important to bear in mind that the guideline should not be what Africa is missing and what we should fill in, but, rather, what does Africa have on the ground on which we can build.

In other words, take advantage of what are ongoing processes and what are structures or institutions which people already are involved in.

I would like to make a few illustrations of this to perhaps further highlight this point.

In 1969, I had the opportunity to do a study of two cooperative societies in Kenya, that were marketing coffee. One was chosen on the ground that it was a good society, the other on the basis that it was a society whose performance had not been adequate.

The latter was particularly illuminating. I was one day invited to participate in an extraordinary general meeting, to which the officer of the cooperative department in the government had also been called because the chairman of that society had been accused of misappropriating funds.

He was accused in front of everybody, and the meeting ended with a call for election of new officers. The interesting outcome of this election, which was done under secret ballot, was that the chairman was returned to his position. We asked ourselves on what grounds could this take place.

It turned out that this particular society, which had been created by the colonial authorities just before independence, to operate on the notion of economy of scale, had been essentially created to incorporate five separate villages, five different communities. All actors looked at the cooperative society as an institution from which to draw the maximum benefit for their own limited community.

Three communities, as opposed to two, supported the chairman. Therefore, whenever there was an election, he was able to be returned because he had actually made sure that the benefits of what he was doing actually were distributed among the three communities supporting him, as opposed to all five.

Fifteen years later, in 1984, I went back to the same society, and, to my great surprise, I found that this particular society was now one of the best societies in Kenya. I wondered how that could happen.

The interesting thing is that what they had decided to do when they got fed up with the divisive politics of the past was that they divided, or rather, delegated the responsibility for running the society to the village level, where there was one coffee factory each. Once the financial responsibility had been delegated, things began to move in a way that was very much more constructive for everybody, because decisionmaking structures now better coincided with local organizational boundaries.

I think the lesson that one can learn from this is that we have to think in terms of actually disaggregating aid and channeling it in such quantities that they become more attuned to what are the needs of the local people; and also to pay more respect to what the institutions on the ground are with which the people associate themselves and which they take seriously.

I would also like to give an illustration here of the savings development movement in Zimbabwe, which is an example of a grassroots organization that has spread by its own force, and simply because there has been in this particular movement a respect for the local institution within which people actually have wanted to cooperate.

I think that the difficulty that we are faced with here is really that of disaggregating aid in such packages through intermediary organizations on the ground in African countries that it reaches people in portions that make sense to them at the local level.

We must not be chased by the need to move money in such a way that it becomes preemptive or directly harmful.

The fourth point is that in Africa, the development debate has so far been a question of growth versus equity.

I think we have gone beyond the point where this is really the main issue. What seems to emerge now is really growth versus vulnerability.

How far can African countries afford to push their economies, particularly their fragile agricultural sectors, without doing too much harm or overextending an already fragile environment?

It seems to me that when we talk about development, we should not only assume, for instance, that an emergency or a disaster is an interruption in development. It is actually the other side of development. Development ought to be redefined in such terms that we start from a much more basic level, where we are essentially saying that development is the capacity of a given community or society to induce its vulnerability to crises or hazards.

It seems to me, therefore, that there is a need to draw the implication from this in terms of trying to integrate more carefully and more intelligently what is labeled emergency aid and development aid, and trying to cope with these in a manner that does not suggest that these are dichotomies, but, rather, two sides of the same coin.

The fifth point is that we have very often been too anxious to move money into projects, into activities which are, as it were, easily identifiable to us. We have often preferred to channel funds through organizations which are reliable, which have a track record on which we can actually make a definite judgment that if we give it to these organizations, things will work.

I see the rationale for such choices, but I think we should also accept that one of the outcomes of this particular way of going about it has been that we have often overlooked the institutions that exist on the ground and simply have not been able to tap the existing potential; that is to say, we have often only reached halfway down to where the real action is, and the real action has not been able to move up enough because there has not been sufficient linkage between what we might call micro activities or grass roots activities on the one hand and macro activities, on the other.

I think it is fair to say that what Fritz Schumacher said 10 or 15 years ago, that small is beautiful, and can perhaps also be powerful in some respects, has not always been fully appreciated.

The sixth point is whether aid should be determined by choice of sector or choice of country.

My own belief is that at this point in time in Africa, it would not be very appropriate to choose a sectoral approach. I think we would only create lopsidedness and, in fact, enforce the kind of proliferation of aid and fragmentation of the scene that Professor Mellor just talked about a few minutes ago.

I would, therefore, suggest that countries still ought to be the category or the criterion determining the flow of aid.

However, the question then becomes which countries?

Here I think we have to be much more, shall I say, careful and intelligent in making the right choice based on need, opportunity, and capacity. When I say both opportunity and capacity, I include institutions outside of the government sector.

To this I would like to add that I think it is encouraging that a number of countries in Africa, which before were very much more rigid in their thinking and approach to development are actually opening up, and that the possibilities for new initiatives are much greater there than they were only 5 years ago.

Countries, in other words, that were perhaps very difficult to include in a list of priority for an agency like the U.S. AID are, in fact, moving in a direction that ought to make these countries somewhat more attractive than they were before.

It is in this context important that we do not just go to these countries again, as we did, with a blueprint, or accepting their blueprint, as expressed, for instance, in a government plan or document, as the only guideline for development or for development aid. We should talk in terms, rather than the blueprint, perhaps of the "greenhouse" and attempt an effort aimed at trying to create the climate that allows organizations that have much closer contact with local society to grow faster. The "greenhouse" would be the provision of these external resources that aid agencies, like U.S. AID, can provide.

Finally, Senator Kassebaum, I would like to say that although U.S. AID has problems and shortcomings, as we have already heard, I am pleased to say, as an outside observer, that of the many bilateral agencies that I have seen in Africa, I have the greatest respect for the U.S. AID, particularly today.

I think it is fair to say that U.S. AID has shown more flexibility, more willingness to take new steps in the right direction than most other agencies have done in recent years. The U.S. AID is in that sense if not a pacesetter, certainly up front where other agencies ought to be.

Finally, I would only like to add here—and this reinforces what Mr. Edelman said earlier—that I do not think we should look at Africa in terms of the international community having a responsibility to "save Africa." It would be wrong to approach what we are talking about here in that fashion.

We should respect that Africans have their own agenda, that they have a potential, and that the question therefore is how we actually build into what they want to do what we can do best.

Thank you.

Senator KASSEBAUM. Thank you very much, Dr. Hyden.

It seems to me that there are several things that all of you have touched on and agreed upon to a certain extent. One is that one has to respect the desires of the individual country you are working with and that the initiative has to come from that government itself. Another would be proliferation of projects and donors and the need to strengthen the institutions within the country with which one is working.

I would hope in the questions I ask that each of you would feel free to enter in, and even to question each other, because I think all of you have an expertise that is really quite valuable.

I might start, Mr. Edelman, with you, because you mentioned something that I feel strongly about. There are too many projects. I think all panelists would concur with that.

We do need policy reform. I guess this is a rather broad question, but it is a point that I have heard referred to a couple of times during the hearings. One needs to have a policy goal. What do you think is the major goal of our development assistance efforts?

Mr. **Edelman**. The Secretary of State has said it, the Secretary of the Treasury has said it, Peter McPherson has said it, and that is growth, economic growth.

Economic growth is the only answer to Africa's debt problems, it is the only answer to its development problems. If you are going to focus on one thing that all of our development efforts should feed into, it is that, Madam Chairman.

Senator **Kassebaum**. One thing that you said in your testimony that I guess I would have to question a bit, if I heard you correctly, is that you see "sweeping changes" of government policy taking place in Africa.

I have seen changes come in fits and starts in various places, but I am not sure that I would categorize it as "sweeping changes" of government policy.

Can you give me an example?

Mr. **Edelman**. I would be delighted to do so.

Senator **Kassebaum**. I think Sudan is one place where we have tried very hard with our policy initiatives to create some economic change, and I don't know that I could say it has worked that successfully.

Mr. **Edelman**. In virtually no countries do leaders anymore, with the exception of Ethiopia, at least, claim that the parastatals and the tight centralized control are the way to go.

Let me give you some examples.

In Mozambique, they have already divested themselves of about six parastatals and are trying to get rid of some more.

In Zambia, where the father of African social humanism still resides, they have undertaken one of the boldest economic reform moves on the entire continent by adopting an auction system for their currency, which will lead inherently to the decline of some parastatals and to greater private sector growth. There are already some indications that that is going to happen.

Kenya has divested itself of several parastatals already, and is talking about doing some more.

In Guinea, following the coup of 2 years ago, the government is rushing pell mell—that is almost the way to describe it—to undo 20 years of state socialism and moving toward market economies. They have changed the name of their currency, they have revalued their currency, they have freed up or raised prices for rice and agricultural production there, they have gotten rid of state banks and there are now three French banks in Guinea. Also, the IMF and the World Bank are there in a large way, helping to straighten them out.

Senegal has gotten rid of its largest parastatal dealing with peanuts, and, at the same time, it is lopping off large quantities of national government employees, I might add at great political risk to the president.

In Mali, they are doing the same thing.

In Niger, they are essentially doing the same thing.

In Zaire, there have been 2 years now of successful IMF stabilization programs, where economic growth is finally occurring to some degree there. Inflation is down from about 100 percent to 15 percent because of the economic policies being pursued there.

Even Tanzania may be close to coming to an agreement with the IMF. The major stumbling block with Tanzania has been on their currency reform, the exchange rate, and I believe they may be close there.

There has been a setback in Sudan. It is unclear, in the last few months, which way, what was a highly transitional government which had a transitional attitude, will take. The government that took power following the coup said after the coup of Nimeri that they intended to be in office only 1 year. They have stuck by that and they have a sort of, and excuse me, it's almost a "let me get the hell out of this place" attitude toward government. As fast as they can they have pushed toward elections and elections have taken place. They have gone both ways in that 1-year period on economic policy.

Those are just some of the examples on changing currency rates, getting rid of parastatals, getting rid of state employees, and providing higher prices for agricultural products.

Senator **Kassebaum**. I guess change is taking place, though I am not sure I would use the term "sweeping." But I do think there has been a start and I think it is going to need to be nurtured because it is a dramatic change in direction in many ways, and one that will not be easy to sustain.

I think again we should not let our expectations get too high.

Mr. **Edelman**. Oh, I agree that right now the rhetoric is in the right direction and the movement is in the right direction. But there is a long road ahead toward implementation and seeing some of these very politically risky, politically difficult changes occur.

The first step is changing the rhetoric and recognizing what they must do. That has happened.

The question now, as you quite correctly say, is implementation. That is a long, slow, road to hoe.

Senator **Kassebaum**. Let me ask some other panelists a few questions. As I have said, if any of these suggest other ideas, I hope you will respond.

Dr. Mellor, if the United States were to focus its development efforts on a few things that we have special ability to do, what should they be?

You mentioned agricultural research, and you mentioned Nigeria at one point, I believe. Isn't that an example of something that should cause us some concern, with people leaving the rural areas and moving into the city, as they have into Lagos? The problem with this is that the rural areas are in decline.

I guess I have asked a couple of things in one question.

Mr. **Mellor**. There is an interesting contrast between Asia and Africa on this point.

When people have moved from the countryside into cities in Asia, they have done so much less rapidly than in Africa, and it really has not had a significant negative effect on agricultural production. They really had surplus labor, more or less, in the agricultural sector.

In Africa, with the pouring in of oil money into some countries, like Nigeria—and I think to be fair we would have to say with the pouring in of foreign assistance money into a number of other countries—that has caused the incomes in the cities, the wage rates and so on, to go up very rapidly. There was a tremendous amount of spending of oil money and foreign assistance money—and not just American foreign assistance money, I would hasten to say—in the urban areas. It has pulled people out of the countryside, as you have said, and that has created some labor scarcities in the countryside that are a significant part of the very slow rates of increase or decline in per capita production in agriculture in Africa.

So there is a serious problem there.

It obviously has been exacerbated by exactly the things that Mr. Edelman has been talking about—getting their prices wrong, their foreign exchange rates wrong, and so on.

I would want to back that up, however, and say that as we get the macropolicies right in Africa, we are going to run smack into much more serious problems in taking advantage of that more favorable macroenvironment than we did in Asia. For much of Africa, we do not have good technical packages for agriculture.

If you look at the maize or corn producing areas in the better watered parts of Africa, the parts with better rainfall, we do have a reasonable technology package so that if we got our fertilizer distribution systems going in those areas, we would get some immediate impact.

We have seen a bit of this in Zimbabwe, and we can point to some other places where this is true.

But, beyond corn production in a fairly limited area, the technology packages are not very good. We just have to give a priority to helping to build up those national agricultural systems, so that they can turn out the technology packages suited to a much wider range of things.

That is one priority.

The second priority is we have a serious problem in Africa of rural areas just not being integrated, one with another, so that the price signals, which are now getting better from the urban areas, cannot reach many of the villages in Africa because the road systems and the communication systems are so poor.

We did a study at my institute in which we show that if you had the same spread between farm prices and urban consumer prices in Africa that you have in Asia, you could sustain a 50-percent increase in farm prices and a 30-percent decrease in consumer prices. In other words, they have much larger margins between the consumer price in urban areas and farm prices in Africa—twice as large as they are in Asia.

Half of that difference in price is due to poor infrastructure—the poor roads, poor communications, and so on.

So, again, in order to take advantage of this macroenvironment, which the United States is playing a significant role in helping to create, we have to move into research to get higher yielding varieties, we have to help them improve the infrastructure.

That last one is very difficult because the resource requirements for that are just immense. They are beyond what foreign assistance can do. They are beyond what national governments can do.

It is going to require development of local agencies and local governments which can raise local money for those purposes, which, essentially, is what all developed countries have done in the past. That is hardly underway in Africa.

If we are concerned with a short-run priority, how can we get an immediate impact from this improved policy environment, the thing to emphasize is fertilizer distribution systems. African countries are using very little fertilizer, especially on food crops, even in areas which are similar to those in other parts of the world, where a lot of fertilizer is used.

The distribution systems are very poor. They need some help in developing those further. It is not something that the United States is as interested in now as it was when we were a big fertilizer exporter, but it is very important to a wider range of our interests and it is something that we should be getting at.

Finally, we just have to continue doing what AID has been getting back into over the last several years, building national capacities through building agricultural universities and other places for training people in the countries to do this tremendous number of tasks that have to be done if you are going to get development.

If I could make an aside on that, I was talking to one of my colleagues at IFPRI, who comes from Bihar, which is a particularly backward part of India. I was asking him what does the employment situation look like in the rural areas that you come from in Bihar? It is very striking, that now if someone gets a secondary school education in this backward part of India, they have no trouble getting a job now.

That is a big change from 20 years ago. It is because of the breakthroughs in agriculture, even in that backward area, that are just stimulating the whole economy.

The second thing that is striking is that practically none of those is working for the government. If you go back 20 years ago, if you graduated from high school in India, you wanted to work for the government and that is where you were going to get a job if you got one. It is all in the private sector now. There has been a tremendous change.

I make this point because quite often people will say well, we have a reasonable number of Ph.D.'s in plant breeding, in agronomy, and so on in African countries. But if those countries start to move, the demand for these people at all levels of education, including secondary school education, higher education, Ph.D.'s in plant breeding and so on, that demand is going to grow very rapidly and now is the time to get moving on it.

So it is very important that AID have a very high priority in that direction.

So, it is training people, it is helping to get the infrastructure improved in rural areas, it is agricultural research systems and fertilizer distribution systems.

Then you can do what Mr. Edelman did very well. You can name a million other areas in which it would be nice to do something.

But we have to have these very tight priorities I would say in these three or four areas.

Thank you.

Senator Kassebaum: Thank you.

Mr. Harrison, let me turn to you. I think you made a very important point on cultural attitudes and their consequences.

What would you think we should focus on if we were to do what we can do best?

Would you say that infrastructure is important? Is this, in Latin America, as important as the agricultural base?

Mr. HARRISON. My own view, Senator, of what has happened now and the things we have been trying to do in the last 25 years is that there has been an evolution toward increasingly more effective development assistance.

I think we have learned lessons. I think we do have a better sense of what is important. I do think that we have a better sense of what works and what does not work.

So, my inclination is to say that that process is probably going to continue and that our impact, with respect to the kinds of problems on which we have focused, which are institution-building, policy, people-building, those emphases are likely to continue toward more and better impact.

My concern is that the lessons of the last 25 years are that, even with that greater impact, the underdeveloped countries themselves may very well still—at least the ones in Latin America—not look all that different because the world view, if you will, the values and attitudes, tend to perpetuate the status quo. And, the status quo in most Latin American countries, and surely in Haiti, which I will take as the surrogate for Africa, the status quo is one which essentially works against the interests of large numbers of people and works for the people who currently have power, who have wealth, who have land, and who have opportunity.

So, as I tried to emphasize in my comments, it is virtually impossible for us, the United States, western Europe, the multilateral institutions, and the multinational enterprises as well, to force countries to take on this basic question of what is it that is preventing them from becoming modern, democratic, capitalist societies.

What we have to do is look for countries where that process appears to be happening, and add to the other things that we are doing—increasingly well, as I said before—whatever help we can to countries that really want to take responsibility for bringing about significant change.

Senator KASSEBAUM. I am curious about one thing. How do you feel about land reform in Central America?

Mr. HARRISON. My organization is working with the AID mission and the Salvadoran Government on their land reform. As the director of the AID mission in Nicaragua during the first 2 years of the revolution, I have some knowledge of the Nicaraguan variety.

I believe that, with respect to the Salvadoran program, it is much maligned, and, while it has a lot of problems, it is a genuine reform. It is doing probably better than a lot of people believe or a lot of people expected. And, given time—and land reform is one more of those aspects of development that consumes much more time than Americans are prepared to wait—given time, it is going to make a significant difference, not only in equity, but I think in terms of production as well in El Salvador.

What I saw 5 or 6 years ago in Nicaragua with respect to their version was disconcerting at that time. I have not kept in touch with it since. There seemed to be a predisposition to replicate the eastern European experience with land tenure and production. I would have to assume that at least part of the explanation for the current condition of the Nicaraguan economy is the consequence of lack of incentive for production in that variant of land reform.

Senator **Kassebaum**. In the land reform in El Salvador, are the cooperatives, the smaller farmer-owned cooperatives, an important part of the land reform effort?

Mr. **Harrison**. They are central, Senator.

When the land was acquired, back in 1980, essentially, military people went on to these large properties and simply said you farmers, or you campesinos, who are working this land for the former large landowner, are now the owner of the land, and you are a cooperative.

Many of them, probably most of them, were illiterate. Most of them probably did not know what a cooperative was. Most of them certainly had great difficulty in conceiving of the idea of landownership, to say nothing of what it takes to manage a complicated agricultural enterprise.

There are now more than 300 of these cooperatives. One of the reasons why I say that we should be very impressed by what has happened, considering where it all got started, is that something like 40 percent of those co-ops are doing well. There is reason to believe that a significant additional number, with changes in policies and improved support programs, and particularly movement away from state involvement, stand a good chance of also reaching this level of effective, cooperative enterprise.

Senator **Kassebaum**. Dr. Hyden, you were talking about the cooperatives in Kenya. Were those privately owned or state-owned cooperatives?

Mr. **Hyden**. These were privately owned, but started in the case that I mentioned by the Government before independence. The ownership was meant to be private, and still is.

Senator **Kassebaum** And the one that worked down at the local level and had local participation was the successful one?

Mr. **Hyden**. Yes.

That was one of these. What I meant when I mentioned this example was the fact that here was a case of where the people simply decided to take decisions on their own, which were not necessarily the ones that the Government would have suggested, but which fit the local situation and which suited the way that these people interacted with each other. They got greater efficiency and more returns out of simply taking the initiative to reorganize themselves along lines that made sense to the local communities.

Senator **Kassebaum**. You questioned working through governments and emphasized grass roots activity, is that right?

Mr. **Hyden**. Yes.

Senator **Kassebaum**. What sort of activity? What exists at the grass roots with which one could work?

Mr. **Hyden**. I would like to say that my intention was to try to suggest that if we want to actually improve public sector performance, it is important that there is a growing demand for services and resources provided by public institutions.

Therefore, you need to create those institutions or strengthen those institutions outside of the public sector that can actually translate demands from the grassroots and also act as a lobbying or pressure group on governments for services or resources that otherwise would be decided upon unilaterally by government bureaucrats or politicians, who do not necessarily have a sense of what the demand might be.

Senator **Kassebaum**. If we could focus on just one or two things, what would you emphasize? Education? Infrastructure? Or do they all go together?

Mr. **Hyden**. I would use the term "institutional development" in the broader sense of the word.

I do not think that training or education, per se, along the same lines as we have done it in the past are going to have any significant payoffs, even if we are talking about research institutions or other such specialized institutions.

I would like to see any such effort combined at the least with efforts to actually support institutions that, as I mentioned, can generate the demand for the use of these people and their skills and knowledge.

That would be my first priority.

My second priority, which obviously is related to this, would be policy reform. My third priority would be infrastructure.

I think it is fair to say that we cannot escape the problem of the breakdown of the infrastructure, whether it is physical, social, or economic, in the African countries.

I am particularly concerned about that with regard to the research institutions. I frankly find it very difficult to believe that we can either improve on research institutions or start new research institutions unless some select attention is paid to what the infrastructure and longer term maintenance issues are for these institutions to be able to perform the function they are expected to do.

Senator **Kassebaum**. It seems to me that it is important to be able to pull all the elements together because, as you say, the research institution by itself cannot really function, if it does not have a support system that can be sustained. Another important factor, it seems to me, is a transportation system, which involves roads and communications. As somebody mentioned, this is an enormous effort. This is an area we focused on in earlier years, I understand, and I don't think we should lose sight of it today in trying to develop a comprehensive approach.

Is there any merit to focusing on just one or two countries as models of how to pull the pieces together, so as not to expend our resources in too many different directions?

Mr. Edelman, do you feel we still have to go from project to project, and country to country?

Mr. **Edelman**. I think it is somewhere in between. I think one or two would be too few, Senator, and you would not learn that much because they would be too different. I am speaking now at least from Africa's point of view. Zaire has almost nothing in common with Somalia, for example. There are a whole host of variations on this theme.

Senator **KASSEBAUM**. For example, should you pick one country that could have a regional impact and focus in a coordinated way on infrastructure that would support agricultural expansion in that country. In this way you would have one country that is strong and could have an impact in the region

Mr. **EDELMAN**. The theory is good. It is sort of what is happening in a way in Southern Africa, through SADCC, which is sort of that kind of thing, where agriculture and transportation are the two major activities that SADCC is involved in, and where you have a regional transportation network that already exists.

West Africa and East Africa do not have transportation links there now. They view each one much more on an individual basis. There are natural ties that go back to colonial and precolonial times, from Zambia, Zimbabwe, Mozambique, Malawi, that work together, which is not as true elsewhere. They tried it a bit when there was an effort to get a group together in the East African community, but it fell apart because of political fractionation between Uganda, Kenya, and Tanzania. But the Southern Africa groups have better cohesion, where something like that not only can work but has worked a bit better.

I think there is a slight difference between transportation and infrastructure, between what I think we should be doing now and what we did in the sixties. Today, I am much more interested in farm-to-market roads, as opposed to the major kind of highway that you may think about.

That is what the North Shaba project was all about, and that is what is really key. It is the small-scale road.

It is a lot cheaper, first of all, than the major highway. You just do a lateral road. I say "just," and it makes it sound very simple. I do not mean that by any means. But it is not quite the major highway, and in much of Africa what they really need is simply to get the product from the farmer to the commercial center of the area—and never mind getting it from the commercial area all the way across to the capital or out to the port.

So it is a slightly more limited type of infrastructure than before.

I think we are now going to moving in Africa and in AID, at least, more toward these types of things. We already have been starting to talk to the World Bank about it.

In fact, in some cases I think that is more important than agricultural research. For example, a problem that we are suddenly finding in Southern Africa is that there are bumper crops in Kenya, and there are bumper crops in Malawi and Zimbabwe, and they have one terrible problem because they have to pay the farmers for this, they have to pay to store it, and it is sitting there and they cannot market it. They cannot market it because of transportation problems of getting it out through ports and other types of marketing problems.

We are going to have to spend more time looking at the marketing kinds of problems there are, which is part of the road network problem. Southern Africa, of course, has a special problem because of South Africa itself.

Here we have a great success, and poor Malawi is sort of being victimized by the IMF because of its success, because it has broken some of its budget limits with the IMF because of its bumper crop and it cannot sell it.

That is more of a marketing area right now than it is in the research area.

In other parts, in some of the Sahel, you need to move more toward the research area. The problem in Sudan today is not that Sudan cannot produce enough to feed itself. It has. It has a million ton sorghum surplus. There is, however, no way to get it from eastern Sudan to western Sudan. That is really a logistics problem there.

Senator KASSEBAUM. Mr. Harrison.

Mr. HARRISON. I just wanted to say, Senator, that I think in theory an argument can be made that it would be best if we could single out some demonstration countries. But the political reality in which AID operates just makes it totally theoretical. We simply have to provide assistance to a fairly large number of countries.

I know that is true in Latin America and I feel confident that it is also true in African nations.

Senator KASSEBAUM. And I am sure it is more true today than it would have been even 15 years ago.

Mr. Hyden.

Mr. HYDEN. At the same time, Senator, I think it is important that somehow there is an opportunity to prove that foreign aid can really work. I think maybe one should stratify the selection of countries in such a way that you have maybe half a dozen countries that would be high priority countries on the ground that they might provide a demonstration effect and might serve as the basis for learning lessons for other countries as well.

Obviously it is the governments in these countries that have to make the choices whether they like what is going on in country X as opposed to their own country. I think that the demonstration effect should not be underestimated, neither in the recipient countries nor here. Credibility has to be restored in foreign aid in many circles. I think that will only take place if we can show somehow that foreign aid really works.

Senator KASSEBAUM. I thank all of you very much.

Does anybody else have any other comment to make?

[No response.]

Senator KASSEBAUM. This has been very helpful and I very much appreciate your testimony and your thoughts today.

It is a pleasure to welcome back to complete our hearings the Hon. Peter McPherson, Administrator of the Agency for International Development.

It is a pleasure to have you with us again.

STATEMENT OF HON. M. PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. McPHERSON. Thank you.

It is very pleasant to be here again.

I think these hearings have been particularly constructive. I have followed them closely, of course. I think they have the potential of really making a very valuable contribution, and I mean that.

I would like to thank you and your staff—Steve Brent and Phil Christenson, who I know have worked hard and long on this as well as others on the committee staff. On my own staff, Marshall Brown has been in charge of our getting ready for this hearing.

Getting ready for hearings is therapy in itself. I think they are very helpful, in fact. Also I would thank Steve Abrams and Peter Theil of my congressional relations staff, who have worked very hard on this.

We all look forward to the next several months when I know we will be talking more about several of the ideas that have emerged here which I know will be productive.

I would like to stress a couple of key points and to refer to some of the remarks made by other witnesses here.

Let me start off by commenting on a couple of points which you have personally made.

At the very beginning of the hearing, the first day, you made a comment that was perceptive and which asked a hard question. Namely, you pointed to the lack of progress in Africa, particularly, and to the large donor contributions to Africa, and concluded by saying that something must be wrong. And, if something is wrong, just what is it?

One of the witnesses, Larry Harrison, whom I have known for some time and view to be an especially perceptive observer of the Third World, talked about this a bit, and I agree with him fundamentally. He said the fault or the reasons—"reasons" I think actually is a better word—are to be found primarily with the different circumstances, the situation, the culture, in some cases, in Africa and with the governments of those countries.

He argued that the values and attitudes were very fundamental to making change, or, in some cases, to inhibiting change. He talked about the drought in Africa and the various other difficult circumstances, pointing out that Africa—and I know this to be a fact—probably could be 50 years or so behind Latin America and Asia.

As we sit here, we sometimes think of the Third World as all one entity, one type of circumstance. But Africa is so markedly behind the other continents that its situation really is different.

Of course, the harmful policies of these countries, which are beginning to change, nevertheless have really had an impact on agricultural production and have been partially accountable for these problems.

Overall, there has been, in dollar terms, a lot of money going into Africa. But, when you look at the vastness of the continent, it really is not as large as one might think.

Having said this, I believe that the major responsibility has not been the donors per se, but have been these other factors that I have mentioned.

I think the donors, however, have to look hard and long at what they have done. In many cases, there have been stops and starts in programs. There has been investment in the wrong kind of projects.

I believe, in the seventies, there was far too much of a welfare orientation in Africa programs, including the AID programs in some countries in Africa.

I believe that donors have not paid enough attention to policies. The donors cannot simply sit back and say that these countries had bad policies. I think donors gave money to countries which had bad policies, and they have to take partial responsibility for that.

I am happy to say, of course, that we worked hard on making these changes.

Another comment that has arisen here is the concern about the nature and extent of our government-to-government activity.

This has been a point of major interest to me and to Secretary Shultz, with whom I have talked on this subject several times. We are, in a number of areas, moving away from government-to-government activity and I think productively so.

For example, a steadily larger percentage of that is in retail sales by commercial outlets. I want to see more of this approach and we are beginning to see some of this in ORT and in other health areas. Retail sales programs can reach people faster and easier in some cases, in many cases, than other programs.

They are not the full answer to health programs—family planning programs—but they are part of an answer.

We are expanding our credit and our training programs for credit generally, more or less at terms above inflation—roughly market terms—in many countries. We have steadily expanded our use of PVOs. I think it is up to about 15 percent this year for the total development assistance program.

Having said all of this, in fact, we are and should be moving away from some of the government-to-government activity. On about June 1, we expect to have a full catalog of what we are doing around the world in this respect. It will be detailed enough for people really to take a look at it. I will send that report to you.

Having said that this is important, I think we need to recognize that the answer is not massive credit on a subsidized basis to the private sector.

Within a few weeks after coming to this job, I went up to see Walter Wriston, then CEO of Citybank, and asked him, "What do you think we should do with the private sector?" Mr. Wriston's response was that one thing is for sure—don't think that huge credit programs are going to be your answer The reason more credit is not extended—and he was not necessarily talking about tiny little businesses—but the reason more credit is not extended generally, Wriston argued, was because there are not good projects, good loans, to make substantially above what is made.

People would quibble with that, of course. But my point basically to this committee would be that in the United States we expect that there will be the trained people around to do the job; that we can go out and hire somebody who can weld or who can manage a new venture. We think and expect that we are going to have a stable government, with a more or less stable economic program and set of policies.

We think that technology more or less either can be created by our businesses or can be purchased or leased. All of these things are simply not available in any developing countries.

So what a foreign aid program needs to do in my judgment is go in and help some of those critical foundations upon which the private sector inevitably will have to grow.

For example, there is our policy dialog. Policy is set, by and large, by the government. So we have to have a program that deals with the government, at least in part. You cannot get exchange rates adjusted by dealing with the private sector. You have to engage the government. You cannot get trade policy changed by dealing with the private sector. You have to engage the government.

In the training area, we have virtually doubled the number of people who come to this country for training. This is key because we cannot run some of our projects in the Third World countries very well because the local people are not equipped to do the accounting, for example.

A good deal of our large ESF Program goes to help stabilize the economy and contribute to a stable government. Sudan is a case where, despite good circumstances, progress has not been made because they have not had a government in place upon which progress could be built.

Another issue which was discussed was a question of long-term needs versus short-term programs and commitments by AID.

I am convinced that certain types of activities must be long-term commitments. Indeed, a year or so after I became Administrator I changed the policy, which at that time had said that we could not make a commitment of more than 5 years.

I felt that 5 years, when you are trying to build an institution, is frequently too short a time. That came about in the context of considering the building of an agricultural university, much like Kansas State, if you will, in Cameroon.

It was clear to me that you could not build a Kansas State in 5 years, that you needed a much longer commitment—sometimes less money per year, but a much longer commitment, and that is where we are.

It is also true that often you need fairly short-term, immediate impact, such as in the Philippines. I would expect a large part of that package to go for these immediate problems. When economic policies are in place and you have a stable government, there is no reason why a country like the Philippines cannot make substantial progress.

I mentioned policy dialog several times here today.

It is my belief that there has been no greater fundamental change in the way the foreign aid program has been run in the last 5 years than the change brought by the enormous emphasis on policy dialog.

Incidentally, our great emphasis upon this clearly has had an impact upon the whole donor community, between us and the World Bank being interested in this matter. As a keyleader in the donor community, we are seeing others pick up the same concern. It is a lot easier struggle than it was 5 years ago.

You have to engage countries in policy discussions in order, as I mentioned earlier, to get trade policy changes currency changes, et cetera. This is also true for our projects.

Perhaps you will remember that on the first day, I mentioned the need to have a project like the Cameroon University and its extension and training programs. Through developing that project and talking with the government and others on how to do so, we are having an impact upon the thinking, and upon the policies, if you will, on a whole range of microissues.

Key to making policy dialog work, in my judgment, is to have people in the country. The reason, frankly, in my judgment that we are heads and shoulders above any other bilateral donor in policy dialog is because we have numbers of very sophisticated people in Third World countries, where the Japanese and the Germans and others by and large do not. So we can have an agriculturist who graduated from Purdue or Kansas or Michigan State or someplace like that who can engage the agriculture ministry on a day-to-day basis, who can become an intellectual peer and friend.

That is how you get people to change. You engage them in ideas, basically. It is not just money.

I remember that when I got here people said that we couldn't have policy dialog in a country where we only had a couple of million dollars. Well, if you have a couple of million dollars and a good person, it can often have a real impact, because we are the United States of America and people want to listen to us. They at least want to hear what we have to say, if not be persuaded.

Our presence, in-country, has been absolutely critical to doing this.

It is interesting that, as the World Bank begins to struggle with this issue, over the years, bit by bit, they have begun to put more people out in the field—though sometimes I think not as many as they should, but certainly more than what they once did 4 or 5 years ago. You cannot simply fly into a mission every 6 months and expect to be treated like anything except a stranger.

That, to me, is one of the great strengths, one of the fundamental strengths, of the way we do business. Our unique strength is our presence in countries.

You have talked a lot, as have others here over the days, as I did initially, about donor coordination. I truly believe, Madam Chairman, that this is an area for which the time is ripe.

Over the years, there has been a lot of talk. A lot of people signed on to motherhood, but not much was done.

In the end, behind the talk and commitment in principle, there has to be the leadership and power that goes with money.

We are no longer in a position, as a bilateral donor, to lead an international effort directly. We lead by example.

We are by far the most innovative, and changes in the way foreign aid programs are implemented around the world tend to start with AID and the Bank. That unquestionably is the case.

But we are not in a position to be the point men, given the international circumstances today. We can be an awfully good backer of the point person, and the point person, I believe, by necessity must be the World Bank. They have the experience and the expertise. They are beginning to move more people in the field. With a new president, it is a unique opportunity to really grab the ball and run with it.

The Baker plan, incidentally, is one of the important tools or moves toward donor coordination. I see that as just another telltale sign of the times.

I would quote again from Larry Harrison. When talking about how AID is viewed by the other donor organizations, by the Bank, by the British, the Germans, or whoever, AID, he said, is creative, resilient, responsive, and effective.

Obviously, there are some ongoing questions that we need to sort through, but, fundamentally, I believe in that. I believe it has been true that we have changed with the times, with the problems, and we continue to change.

Indeed, in the last few years we have made some important management improvements—cutting the Washington middle management staff. Most of the cuts in our staff have come from Washington.

You may remember that on my first day, I talked about how it was a little bit like the automobile companies. They found in the early eighties that they were simply too heavily staffed, and that they could become more efficient by reducing staff. Up to a point I think that is certainly true with AID as with other institutions, and we have done the same thing in Washington. We have decentralized decisionmaking.

Decentralization is always a little scary. You have to let loose of the controls a little. Some things will happen around the world that we did not quite expect. But that also means that a decentralized entity can respond more effectively.

Incidentally, this has meant that we really have put more of a premium on who is going to be the mission director. If you had a centralized operation that had to check with Washington every time they moved a piece of paper, then you did not have to count too much on that person out there. But, with decentralization, there is not a mission director in this agency that I have not personally approved.

I think that one of my most important functions, frankly, is to make those key personnel decisions. When you are out there alone, it is critical. That is the best way we can be responsive.

We cannot control Mali or Ecuador in Washington, DC, in any detailed fashion.

In this context, you have asked, and we particularly appreciate that you have asked, how Congress can make our job easier, consistent with your oversight mandate.

There are serious problems, and we ask here today that indeed they be dealt with.

We believe that earmarks and functional accounts should be eliminated. They are enemies of effective and responsive management. They really should be eliminated.

Congressional notifications and the overloading of congressional reports and presentations obstruct Agency efficiency and divert it and divert Congress from more important matters. You will remember the pile of papers that I brought with me the other day.

What I think it means—and you hit on this a bit yourself—is that micromanagement by Congress is likely, in fact, to mean that macroissues are not noticed or not dealt with adequately.

It has been my experience over the years that there have been several macromatters which have received very little congressional attention.

I look at just one small example. I think, if we look back on what AID has done during the last 5 years, say a decade hence, I suspect that one of the most significant things we will be thought to have done or achieved was our malaria vaccine. We substantially increased the amount of money going into this program, and, with the exception of one Senator who has been interested in the matter, no one in Congress really has focused on this. But I think it is of major significance.

I can think of a number of other major items, policy items—and I suppose malaria vaccines are not terribly controversial, but a lot of money has gone into it. I can think of several other major items where we made judgments that we had to make because they fundamentally needed to be made. But, at the same time, we tended to be talking to Congress about this contractor versus another contractor, or about nuances of a project that, frankly, as Administrator, I generally did not worry about until the matter was brought up to me by way of this notification process.

Another matter which we think would be very highly desirable is to allow a carry-over into another year, into the next year, of unobligated funds, whether they be ESF or DA, because if we are going to have an effective policy dialog, then it is important to be able to hold back money. The ultimate card is, of course, being able to say no. If you have a calendar deadline under which a mission thinks it must obligate money, then you significantly reduce your negotiating power.

It is fine to say that government people should just be hard-nosed and willing to turn money back to the U.S. Treasury, and that, of course, is what we should do. Indeed, in my time I have turned some money back.

But the reality is that the real bargaining power would be significantly enhanced if we had the authority to carry money over into the next year.

I appreciate your review of these situations and they could be of some big help to us.

There has been some discussion about trade. I, for one, believe that, without substantial trade, AID is unlikely to be of not very great value in many countries. If countries, had the option, they would in many cases, choose more trade and perhaps not as much aid. Nevertheless, clearly AID is a critical component of the whole process and we view trade as being a key.

Within these last few years, we have become steadily more involved in the interagency groups, the so-called TPG and the EPC and so forth, the trade groups that within the executive branch are deciding the executive branch trade policy, and we intend to continue to do so.

AID has an overall role in development policy, and this is a role which we take very seriously and aggressively pursue.

There were some questions concerning continuity of AID projects.

I came to AID with quite a lot of experience in the development business, having watched AID for a long time. Indeed, as a Peace

Corps volunteer, I was a quasi-staff member back in the Peru AID mission.

Continuity was a major concern to me. One of the first things I looked at was the average length of stay in a mission for an AID employee. I found then that it was 31 months.

Now there are a lot of reasons for this, such as sickness, need to transfer, or closing down a mission. But I thought that average was too low. We worked hard in tightening up the reasons people could change and so forth.

We are now up to 39 months on the average. Of course, there are many who stay much longer. Our mission director record probably is higher. I think that mission directors are a key part of that continuity. It is my intention to continue to push that average number up.

On the other hand, I have worked hard on the concept that personnel is not the only ingredient of continuity; that, in fact, AID Washington has a principal responsibility with the missions to work out an overall program and policy for our activities in the country. In other words, in Niger, we have what we call our CDSS, that is, a rolling multi-year plan, and when there is a change in a mission, like Niger, the new mission director does not sign up to go out and look over the program. He signs up for the program which already is in place.

If he wants to engage Washington on some of the changes that he might want to make, that is fine. But, fundamentally, I think it is fair to say that it has been a long time since AID has had throughout the world as consistent a policy and approach as we now have.

That, in part, is because I have been here for 5 years. But I think that, in fact, we have with Congress and the executive branch, a pretty well agreed upon broad approach, what we have articulated as our four pillars—a broad approach which then is applied to individual countries, and, which in turn, has various project components.

I believe that there is now more continuity in AID programs in individual countries than we ever have had before.

I think there is another way we can improve upon that. The Secretary and the President are now talking about reducing American staff abroad, consistent with the mission of State Department and others. We think that this is a good idea.

No one is suggesting that we should reduce the mission as an organizational unit; but, within that context, it may well be possible to have a larger number of foreign nationals and particularly more professional foreign nationals. We have always used secretaries and accounting types. Large portions of those staff have always been foreign nationals.

You often go to a mission and you find a secretary or an accountant who has been there for 15 years. But I want to have more of the professionals, more economists, engineers, and those kinds of people, be foreign nationals, particularly in places like Latin America and some other places, where there are a lot of professional people to tap.

That will add continuity to a program as well.

My summation on this point is that it is my belief that we have continuity of policy and program that perhaps is unmatched in the history of this agency, and it is, in my judgment, one of our current significant strengths.

Progress has not been easy in the Third World, so let me close with a couple of quotations.

The first one is from a publication of the Overseas Development Council:

> The growth record in most developing countries has been a rousing success, well in excess of the real growth rate for any sizeable group of countries over any equally long period prior to World War II.

Obviously Africa is a major exception to this overall LDC performance rate. But the donor community and the African nations themselves I believe now I understand the weakness of past performances and the kind of development strategies that should be pursued to stimulate growth and development.

In short, the only reason in my judgment to relax, give up, or quit in the foreign aid business would be because of loss of purpose or nerve. The successes to look at, to measure where we are, are, in fact, there.

The U.S. Government clearly has lost neither its nerve or its purpose.

I would give you one more concluding quote, this one from the "DAC Report of the Task Force on Concessional Flows," a recent publication. "For all its flaws, the aid revolution has been one of the great innovations of the second half of the 20th century. In an increasingly interdependent global economy that is deeply fragmented politically, the practice of development assistance has raised the norms of international conduct." I believe that is true, Madam Chairman.

Thank you.

Senator **Kassebaum**. Thank you very much, Mr. McPherson.

I have just a couple of things that I would like to ask. One concerns length of service in the missions, which you touched on. We heard a fair amount through the hearings about whether there should more emphasis on management skills or technical skills, while the direction of AID at this point seems to be management skills. Perhaps, really, we need a mix, particularly as you think of increasing the numbers of professionals involved in the host countries, which I think is important, and their technical capacities.

I would like to ask you about one other area that several have mentioned, which I think it is important but which may have problems that are not clearly seen, and that is combining the DA and ESF funding, so that you have a pool to work with, rather than trying to sort out the different responsibilities of development versus economic support funds.

Do you see this as being beneficial? What might the problems be?

Mr. **McPherson**. I guess I would like to think about that a little bit.

The DA account, a separate development assistance account, has had enormous advantages, really. It has been encumbered by the functional accounts. But everybody saw it as clearly a little less political, as having a more international purpose, and I think that I would be interested in more flexibility within the DA account, perhaps in the functional accounts and what the DA account could be used for, rather than merging DA with ESF.

Senator KASSEBAUM. Haven't we moved more and more to the ESF account?

Mr. MCPHERSON. We have, and we are now using about 30 percent of the ESF account much like development assistance, such as in Pakistan and some parts of our Egypt program, and so forth.

It is a difficult issue. This may be ducking the question a little bit, but instead of trying to come down squarely one way or the other, let me just say that I believe it is important that the U.S. Government and the Congress continue to be squarely behind a development effort, and a long-term development effort. That long-term development effort will, almost by necessity, not have the sort of short-term immediate foreign policy implications to it.

If we change how we operate our accounts, I would be very anxious that we keep that squarely in mind. I would not like to have everything be like ESF, as it is popularly conceived.

Senator KASSEBAUM. Is one reason that there has been greater use of ESF that it does not have the earmarking requirements that the development assistance has?

Mr. MCPHERSON. There is no question about that. There is no question that ESF is much more flexible, and that is why you get a situation where, even though you might want to do projects in a typical or traditional DA kind of fashion, there is still a substantial part of ESF for Pakistan.

I think freeing up DA to be more flexible is a better answer than eliminating the DA account per se.

Senator KASSEBAUM. That is something we should take into account.

Mr. MCPHERSON. But I think your basic concept of trying to figure out how to make this thing as flexible as possible is totally agreed to.

Senator KASSEBAUM. Just out of curiosity, in the moneys proposed for the Philippines—what is it, $150 million? Is that a combination of DA and ESF, and have you given any thought to how it should be focused? I would assume you have.

Mr. MCPHERSON. A great deal, actually, of course.

There is $100 million for economic and $50 million for military or MAP money. The $100 million economic is all ESF. We would expect that some of that would be projectized, perhaps a good share of it would be projectized, to work with the private sector with some training, perhaps some credit—the right kind of credit, not subsidized credit, not massively subsidized credit.

In agricultural production we think there are some good possibilities, as we think for education and other areas.

Now we have a total program in the Philippines from 1986, 1985, and even some previous years funds, not including this new $100 million, of about $405 million. You perhaps saw Oberdorfer's article this morning. That article did a very nice job presenting that background. Of that $405 million, we would expect that at least a couple of hundred million of that, would be disbursed very rapidly. Essentially, it is budget support.

Senator KASSEBAUM. Essentially what?

Mr. McPherson. Budget support.

Senator Kassebaum. In what manner?

Mr. McPherson. The Philippine Government, the new Government, has a deficit this year of about $1.5 billion. That is about 3 percent of their GNP. We think to stabilize their situation, they simply need some additional money to reduce that deficit some. We would expect that as they stabilize their economy, they are going to have an opportunity to make some of the changes, and they have already begun to break up the monopolies, to unshackle their economy from some of the regulations. It would be in connection with stabilizing their economy and moving forward on these reforms that we would provide some of this budget support.

Senator Kassebaum. One of the difficult things for the American people, for our constituents today, is when they see our own budget deficit and our own efforts to cut back, particularly as those efforts affect programs which our constituents are directly involved in, they have a very hard time supporting of foreign aid.

Mr. McPherson. True.

Senator Kassebaum. I know you are very sensitive to this.

But it is incumbent upon us to be able to make the case that our money is being spent effectively; that whatever efforts are being made, are being coordinated; and that money is being used in a manner that will have productive results at the end.

Particularly in the case of the Philippines today, I think it is going to be awfully hard for the public to support additional money if it is not carefully spelled out how it is going to be used.

Mr. McPherson. I think you will be interested to know that on the Philippine situation, we have met with the Japanese. There are basically four major donors in the Philippines. There is the World Bank, the Asian Development Bank, the U.S. Government, and the Japanese Government. There are some other donors. But the four that I just mentioned are the very large donors.

I personally have met with some officials, with the President of the Asian Development Bank, with the number two man at the World Bank, with senior officials in the Japanese Foreign Ministry, for purposes of getting ourselves together on these matters. The World Bank, consistent with what we have argued here today, will chair a coordinating meeting in the middle of May to pull this all together.

What the Bank is doing in the Philippines is a good example of what I think they need to do in a lot of places, and what they are doing in a lot of places. But they need to do even more, because we simply do not have enough dollars to go around. The world community just does not. So we have to be sure that we do not overlap and that we spend it well and that we account very carefully for what moneys we have.

Senator Kassebaum. I do not mean to get sidetracked on the Philippines——

Mr. McPherson. Oh, we appreciate the opportunity to talk about it.

Senator Kassebaum [continuing]. I am pleased to hear what you are saying about the World Bank pulling the significant donors together. But I also think there is a large constituency in this country today who believe that the assets of President Marcos should be used to help pay the cost of development programs and assistance, and that those assets should be topped by legal means for that purpose.

Mr. McPHERSON. As you know, we have watched very carefully the legal proceedings of the Philippine Government as they have pursued assets which were alleged to be those of Mr. Marcos.

Senator KASSEBAUM. This next question may be a tall order, and it is a hypothetical one. If Congress were to agree to give a great deal more flexibility in AID programs, and I think we should, what should the AID Administrator do, given this flexibility and, let's assume full support of the President and of Congress? If you or anyone were able to totally overhaul the AID program, in spite of the various interest groups, and if you had the full backing of the administration and of Congress, what changes would you recommend in internal AID operations?

Mr. McPHERSON. I think, first, you could have fewer Washington staff. I think you could have fewer staff—I don't know how many fewer—but certainly there would be fewer. You would find in individual circumstances more flexibility to stretch and use dollars. I would envision that in some countries you would move money around within countries a little bit more, particularly if the budget were very tight, as you expect it will be, if you didn't have as many country earmarks. Many of those country earmarks have become simply rituals anyway.

It's the sort of situation where "we have always had an earmark for this country therefore let's put it in again." Then, when you start talking about changing some of the earmarks, it becomes a question of premises for Congress or the executive branch, which nobody wants to challenge.

So I would think—and this is maybe too much of a general answer—but I would think we would be able to save staff, we would be able to use money more effectively. I would think we would be able to move more quickly.

Having said that, I believe that many of those earmarks represent a broad consensus on commitment to do certain things.

For example, a PVO earmark is more form than substance at this juncture because we exceed the earmark regularly. We are committed to PVOs as an instrument.

But the fact is that you always sort of have to jump through the hoops and worry about all these things and often get stymied and cannot do things that you would like to do because of a restriction that may not have any meaning at all and this is harmful.

In general, I think we could run a more efficient, more flexible, more responsive program.

Senator KASSEBAUM. Well, as I said, it is a rather broad question. We will have to do much work ourselves before we will be able to decide what we should do and how we should proceed legislatively.

But I think and hope that we have made a good first step in analyzing some of the changes that should be made. I think the key to success will be in following through.

It certainly is my intent to do so.

Mr. McPHERSON. Excellent.

Senator KASSEBAUM. I appreciate your being willing to come back and help us wrap this up.

I would like to keep the record open. I know that there are questions to be submitted, and I have questions from Senator Zorinsky, Senator Eagleton, Senator Helms, and a few from me. So I would like to ask that the record be kept open through the remainder of the day.

Mr. **McPherson**. Thank you. I appreciate your hearings.

Senator **Kassebaum**. Thank you very much, Mr. McPherson.

That concludes the hearing.

[Whereupon, at 12:10 p.m., the hearing was adjourned subject to call of the Chair.]

APPENDIX

Prepared Statement of M. Peter McPherson

MADAM CHAIRMAN:

I AM PLEASED TO APPEAR BEFORE YOU TO START OFF WHAT IS A VERY IMPORTANT SERIES OF HEARINGS. AS I UNDERSTAND IT, YOU ARE INTERESTED IN EXPLORING HOW A.I.D. DOES ITS BUSINESS -- WHAT WE HAVE DONE TO IMPROVE OUR EFFICIENCY AND EFFECTIVENESS, AND HOW WE CAN -- WITH CONGRESS' HELP -- BUILD ON THAT RECORD.

THE LEGISLATIVE CYCLE DOES NOT NORMALLY ALLOW US THE LUXURY OF TIME TO DISCUSS THESE KINDS OF ISSUES, MADAM CHAIRMAN. I WELCOME YOUR INTEREST. WE HAVE INTRODUCED SOME NEW APPROACHES AND INSTITUTED A RANGE OF ADMINISTRATIVE AND MANAGERIAL REFORMS. I WILL MENTION SOME OF THEM TODAY. I KNOW THAT ON SUBSEQUENT DAYS YOU WILL BE DISCUSSING MANY MORE OF THEM IN DEPTH.

FIRST, HOWEVER, I SHOULD MAKE THE POINT THAT WHAT WE DO AT A.I.D. RELATES TO THE CHALLENGES WE FACE AND THE WAYS IN WHICH WE WANT TO MAKE A DIFFERENCE IN THE DEVELOPING WORLD. LET ME

TALK FOR A MOMENT ABOUT THE KINDS OF CHALLENGES I SEE.

WE ARE DEALING WITH A THIRD WORLD WHICH IS VAST AND VARIED. THE STAGES OF DEVELOPMENT, THE CAPACITY TO ADJUST TO INTERNATIONAL ECONOMIC CONDITIONS, DIFFERENT AND CHANGING CLIMATIC FACTORS, AND A RANGE OF GOOD AND BAD GOVERNMENT POLICIES ARE JUST SOME OF THE FACTS AND FORCES WHICH DIFFERENTIATE EACH OF THE DEVELOPING COUNTRIES. CLEARLY, THE THIRD WORLD IS NOT MONOLITHIC. JUST AS CLEARLY, OUR PROGRAMS MUST DEAL WITH AND RESPOND TO ITS INCREDIBLE DIVERSITY.

WITHIN ASIA, FOR EXAMPLE, ONE CAN BROADLY DEFINE TWO GROUPS OF COUNTRIES -- THE FIRST, GENERALLY THOSE OF SOUTH ASIA, HAVE DISPLAYED LOW GROWTH, VERY LOW INCOME AND A HIGH INCIDENCE OF ABSOLUTE POVERTY. THE SECOND, THOSE IN SOUTHEAST ASIA, ARE CHARACTERIZED BY MEDIUM TO HIGH GROWTH, LOW TO MIDDLE INCOME, AND RELATIVELY LOW ABSOLUTE POVERTY INCIDENCE. THE DEVELOPMENT OF AGRICULTURE AS WELL AS OF MANUFACTURING IS MORE ADVANCED. THESE LATTER COUNTRIES ARE ALSO CHARACTERIZED BY GOOD ECONOMIC MANAGEMENT AND SOUND POLICIES, INCLUDING THOSE WHICH STIMULATE EXPORTS.

SUB-SAHARAN AFRICA, AS YOU KNOW, SENATOR KASSEBAUM, IS AT AN EARLY PRE-INDUSTRIAL STAGE OF DEVELOPMENT. IT REPRESENTS A

UNIQUE AND, WITHIN THE DEVELOPING WORLD, THE MOST DIFFICULT ARRAY OF DEVELOPMENT CHALLENGES. ALTHOUGH SIGNIFICANT PROGRESS HAS BEEN ACHIEVED IN CERTAIN AREAS, AFRICA IS IN DEEP TROUBLE. IT HAS EXPERIENCED WIDENING FOOD PRODUCTION AND CONSUMPTION IMBALANCES, RETARDED ECONOMIC GROWTH, INCREASED POVERTY AND MALNUTRITION. ILL-CONCEIVED POLICIES AND WEAK INSTITUTIONS HAVE DISCOURAGED FARMERS FROM INCREASING PRODUCTION BEYOND SUBSISTENCE LEVELS. RAPID POPULATION GROWTH HAS CONTRIBUTED TO ADVANCE OF THE DESERT, THE LOSS OF FOREST LANDS, AND THE EROSION OF TOP SOIL.

THE CENTRAL CHALLENGE IS TO REACTIVATE GROWTH IN AFRICA. EXPORTS MUST GROW TO PROVIDE THE RESOURCES TO MEET CRITICAL IMPORT NEEDS AND TO SERVICE FOREIGN DEBT. AGRICULTURE MUST GROW TO REDUCE THE VULNERABILITY TO RECURRING DROUGHT TO OBTAIN FOREIGN EXCHANGE AND PROMOTE FOOD SELF-RELIANCE. ECONOMIES MUST GROW TO CREATE JOBS AND TO GENERATE LOCAL BUDGET RESOURCES FOR DEVELOPMENT INVESTMENT AND RECURRENT COSTS. RENEWED GROWTH DEPENDS DIRECTLY ON AFRICANS' COMMITMENT TO ECONOMIC REFORM AND EFFICIENT USE OF RESOURCES.

IN THE WESTERN HEMISPHERE COUNTRIES, A.I.D. PROVIDES ASSISTANCE TO SEVEN SMALL, ENGLISH-SPEAKING CARIBBEAN NATIONS WHOSE COMBINED POPULATION IS LESS THAN ONE MILLION. THEY HAVE

SMALL, OPEN ECONOMIES WHICH ARE HIGHLY DEPENDENT ON CONDITIONS IN THE WORLD ECONOMY.

THE ENTIRE LATIN AMERICAN AND CARIBBEAN REGION SUFFERED GREATLY FROM THE WORLD RECESSION OF 1982; RECOVERY EITHER HAS BEEN SLOW OR IS NOT YET UNDER WAY. EXTERNAL DEBT BURDENS, ON THE AVERAGE, ARE MUCH HIGHER THAN IN OTHER DEVELOPING REGIONS, AND THE SERVICING OF EXTERNAL DEBTS IS A MAJOR FACTOR INHIBITING RAPID ECONOMIC RECOVERY. ANOTHER MAJOR PROBLEM IS THAT MOST COUNTRIES HAVE BEEN SLOW TO ADOPT STRUCTURAL ADJUSTMENT MEASURES NEEDED TO DIVERSIFY AND EXPAND THEIR EXPORTS. PROGRESS IN HEALTH AND EDUCATION HAS BEEN SERIOUSLY IMPEDED BY THE ECONOMIC DOWNTURN.

GENERALLY, I WOULD DESCRIBE EACH DEVELOPING COUNTRY AS BEING AT A DIFFERENT POINT ALONG A CONTINUUM IN TERMS OF CAPITAL ACCUMULATION, HUMAN RESOURCE CAPABILITY, TECHNOLOGICAL ADOPTION, INSTITUTIONAL DEVELOPMENT, AND CULTURAL VALUES, ATTITUDES AND PRACTICES. TO THE EXTENT THAT COUNTRIES DIFFER IN THESE WAYS, THEIR CURRENT DEVELOPMENT PROBLEMS DIFFER, AND DEVELOPMENT ASSISTANCE DELIVERY MUST DIFFER. EVEN AMONG COUNTRIES AT ROUGHLY THE SAME POSITION ALONG THE DEVELOPMENT CONTINUUM, DEVELOPMENT ASSISTANCE REQUIRES CAREFUL TAILORING FROM COUNTRY TO COUNTRY. THUS, COUNTRY PROBLEMS DIFFER BECAUSE

OF DIFFERENCES IN DEBT SERVICE BURDENS, IN THE ROLE OF ECONOMIC RENT FROM MINERALS, IN SIZE OF INTERNAL MARKETS, IN THE ROLE AND IMPACT OF TRADE AND INVESTMENT, AND IN THE WISDOM OF RECENT ECONOMIC POLICIES. BECAUSE OF THESE MANY DIFFERENCES AMONG COUNTRIES AND -- TO AN IMPORTANT EXTENT -- AMONG REGIONS, A.I.D. OPERATIONS DIFFER AMONG COUNTRIES AND AMONG REGIONS. BUT THESE ARE NOT THE ONLY FACTORS WHICH CHALLENGE AND GUIDE OUR PLANNING.

FOREIGN ASSISTANCE IS AN INSTRUMENT OF U.S. FOREIGN POLICY. FOREIGN ASSISTANCE SERVES OUR POLITICAL, MILITARY, STRATEGIC, AND ECONOMIC INTERESTS AS WELL AS DEVELOPMENT AND HUMANITARIAN OBJECTIVES. OUR BILATERAL ECONOMIC ASSISTANCE IS MEANT IN PART -- IN SOME CASES, IN A VERY IMPORTANT PART -- TO ACHIEVE OBJECTIVES THAT HAVE LITTLE TO DO WITH TYPICAL DEVELOPMENT INDICATORS. THE EFFECTIVENESS OF AID IS LINKED TO ALL THESE INTERESTS AND OBJECTIVES.

ANOTHER SIGNIFICANT FACTOR IN OUR THINKING ABOUT WHAT WE SHOULD DO AND HOW WE CAN BE EFFECTIVE IS THAT A.I.D. IS ONE OF MANY ACTORS IN THE CURRENT DEVELOPMENT ASSISTANCE PROCESS. U. S. BILATERAL PROGRAMS ACCOUNT FOR ABOUT 15 PERCENT OF OFFICIAL DEVELOPMENT ASSISTANCE TO DEVELOPING COUNTRIES. I SHOULD MAKE THE POINT, HOWEVER, THAT WE PLAY A LARGER ROLE THAN

THIS MODEST PERCENTAGE SUGGESTS. MANY DONORS PROVIDE RESOURCES BUT EXERCISE VERY LITTLE OVERSIGHT IN RESOURCE USE. OUR MISSIONS ARE IN THE FIELD TO MONITOR ASSISTANCE USE, TO PLAN FUTURE ASSISTANCE, AND TO CARRY OUT OUR INCREASINGLY INFLUENTIAL DIALOGUE ON ECONOMIC AND DEVELOPMENT POLICIES. THE U.S. ROLE IS ALSO MADE LARGER BY VIRTUE OF ITS PARTICIPATION IN THE MULTILATERAL DEVELOPMENT INSTITUTIONS AND OTHER PROGRAMS THROUGH WHICH WE CHANNEL AN ADDITIONAL 7 PERCENT OF OFFICIAL DEVELOPMENT ASSISTANCE. A.I.D. ACTIVELY SEEKS TO INFLUENCE HOW THESE INSTITUTIONS AND OTHER DONORS PERFORM. IN THE FIELD, IN WASHINGTON, AND IN DONOR FORUMS A.I.D. IS IN THE LEAD IN COORDINATING ASSISTANCE AND IN ENCOURAGING OTHER DONORS TO USE THEIR ASSISTANCE TO SUPPORT POLICY REFORM AND MORE EFFECTIVE ASSISTANCE PROGRAMS.

OF COURSE, IN EACH COUNTRY, IT IS THE PEOPLE AND THEIR LEADERS, WITH THE POLICIES THEY PURSUE AND THE RESOURCES AT THEIR DISPOSAL, THAT ARE THE PRINCIPAL ACTORS AND SHAPERS IN THE DEVELOPMENT PROCESS. DEVELOPMENT PROGRESS IS PRIMARILY A FUNCTION OF WHAT THE LDC'S DO TO HELP THEMSELVES. BUT FOREIGN ASSISTANCE PROVIDES A CATALYTIC AND AN ACCELERATING COMPONENT TO THE DEVELOPMENT PROCESS WHEN ASTUTE CHOICES GUIDE THE USE OF THE DONORS' CONTRIBUTIONS AS WELL AS HOST COUNTRY RESOURCE ALLOCATION.

THE CONCEPTUAL BASIS FOR A.I.D.'S PROGRAMS LIES IN DISCRIMINATING COUNTRY PROGRAMMING. ON-SITE ANALYSIS OF DEVELOPMENT PROBLEMS AND OPPORTUNITIES MUST BE THE DRIVING FORCE BEHIND REALISTIC PROGRAM COMPOSITION. THAT IS OUR APPROACH. A "COOKIE-CUTTER" APPROACH IS NOT APPROPRIATE. IN MANY AFRICAN COUNTRIES, FOR EXAMPLE, WE HAVE BEEN CHANGING OUR RESPONSES SIGNIFICANTLY. WE HAVE MOVED TOWARD CONCENTRATING RESOURCES IN FEWER PROJECTS. THE "LIFE" OF MANY PROJECTS IS ALSO BEING EXTENDED BECAUSE WE RECOGNIZE THAT A SUSTAINED EFFORT IS NEEDED GIVEN THE NATURE OF THE PROBLEMS WE ARE ADDRESSING. CURRENT PROJECT LIFE AVERAGES TWO YEARS LONGER THAN PROJECTS INITIATED FIVE YEARS AGO.

TO BRING SOME OVERALL FOCUS TO OUR ACTIVITIES, THE AGENCY HAS DEVELOPED A WORLDWIDE STRATEGIC PLAN THAT IDENTIFIES KEY PROBLEMS AND SETS GOALS WHERE WE BELIEVE WE CAN MAKE A DIFFERENCE, ALONE OR IN CONCERT WITH OTHER DONORS. I BELIEVE THAT THE STRATEGIC PLAN IS THE FIRST SUCH DOCUMENT EVER PRODUCED BY A.I.D. THE PLAN EMBODIES THE CENTRAL OPERATING PRINCIPLES OF THIS ADMINISTRATION. THESE ARE OFTEN CALLED OUR "FOUR PILLARS" OF DEVELOPMENT:

-- CONDUCTING CANDID BILATERAL AND MULTILATERAL DIALOGUE ON THE NEED FOR REFORMS BY LDCS OF POLICIES AND INSTITUTIONS TO

SPUR POSITIVE DEVELOPMENTAL CHANGE AND PUT THESE COUNTRIES ON THE PATH OF SUSTAINABLE GROWTH;

-- USING THE PRIVATE SECTOR AS THE ENGINE FOR SUSTAINED GROWTH AND DEVELOPMENT;

-- CREATING SUSTAINABLE INDIGENOUS INSTITUTIONS WHICH CAN CARRY ON DEVELOPMENT AFTER THE DEPARTURE OF DONOR ASSISTANCE; AND

-- TRANSFERRING TECHNOLOGIES TO DEVELOPING NATIONS TO PERMIT MORE EFFICIENT USE OF RESOURCES. NO COUNTRY HAS MOVED UP THE DEVELOPMENT LADDER WITHOUT SUCH TECHNOLOGIES, BORROWED OR SELF-CREATED. IN OUR CENTRALLY-FUNDED PROGRAM IN SCIENCE AND TECHNOLOGY, RESEARCH AND ADAPTATION OF TECHNOLOGIES ADDRESS PROBLEMS THAT CROSS COUNTRY AND REGIONAL BOUNDARIES.

THE STRATEGIC PLAN INCLUDES COMMITMENTS TO ECONOMIC GROWTH, ALLEVIATING HUNGER, ENHANCING THE PROSPECTS OF CHILD SURVIVAL, REDUCING ILLITERACY, AND COPING WITH UNMANAGEABLE POPULATION PRESSURES. SO, WHILE OUR INDIVIDUAL COUNTRY PROGRAMS ARE RESPONSIVE TO COUNTRY-SPECIFIC SITUATIONS, I ALSO EXPECT THEM TO BE SENSITIVE TO THE AGENCY'S COLLECTIVE EXPERIENCE AND PRIORITIES. I HAVE CHARGED OUR MANAGERS TO MEASURE THEIR

PROGRAM CHOICES AGAINST OUR TARGETS WORLDWIDE.

COUNTRY PROGRAMS VARY GREATLY IN TERMS OF BUDGET LEVELS, INTENSITY OF STAFF SUPPORT, AND SECTORAL EMPHASIS. THERE IS MUCH DIVERSITY ACROSS THE SPECTRUM OF OPTIONS IN THE MIX OF POLICY DIALOGUE AND PROGRAM AND PROJECT ASSISTANCE, DEPENDING UPON THE AVAILABILITY AND APPROPRIATENESS OF ESF, DEVELOPMENT ASSISTANCE (DA), PL 480 RESOURCES, AND, OF COURSE, OTHER DONOR ACTIVITIES. HISTORICALLY, THERE HAS BEEN AN INSTITUTIONAL EMPHASIS ON DA AS THE CORE OF OUR DEVELOPMENT PROGRAM. WE HAVE BROADENED OUR ACTIVITIES BEYOND THE TRADITIONAL DA-TYPE PROJECT IN RESPONSE TO CHANGING ECONOMIC REALITIES AT HOME AND ABROAD. ESF AS WELL AS CONCESSIONAL FOOD SALES PROGRAMS ARE WELL SUITED TO PROVIDE BALANCE OF PAYMENTS RELIEF, COMBINED WITH MACRO-ECONOMIC AND SECTOR-BY-SECTOR POLICY REFORM DIALOGUE, AND CONTRIBUTE TO ECONOMIC DEVELOPMENT. WE NOW MORE CAREFULLY INTEGRATE ESF AND PL 480 INTO OUR DEVELOPMENT PLANNING.

IN KEEPING WITH OUR VIEW OF THE POLICY DIALOGUE AS A "PILLAR" OF DEVELOPMENT, WE HAVE PUT POLICY REFORM HIGH ON THE AGENDA. THE EVOLUTION OF OUR STRATEGIES REFLECTS AN INCREASING EMPHASIS ON THE CRITICALLY IMPORTANT NEED FOR POLICY CHANGES AND ECONOMIC STABILIZATION TO CREATE THE PROPER ENVIRONMENT FOR GROWTH AND DEVELOPMENT. OUR GOAL IS THE PROPER MIX OF

NON-PROJECT AND PROJECT ASSISTANCE. IN AFRICA, FOR EXAMPLE, THE COMPONENTS OF OUR STRATEGY ARE ECONOMIC RESTRUCTURING, AND AGRICULTURAL DEVELOPMENT, AND HUMAN RESOURCES DEVELOPMENT. DA, ESF, AND PL 480 EACH PROVIDE ABOUT A THIRD OF ALL RESOURCES. THE INCREASED USE OF ESF IN AFRICA HAS FACILITATED MACRO-ECONOMIC AND SECTOR POLICY REFORMS, AND HAS PROVIDED LOCAL CURRENCY TO FINANCE RECURRENT COSTS.

IN CENTRAL AMERICA, WE ARE CONTINUING OUR MULTI-YEAR PROGRAM TO HELP STABILIZE ECONOMIES, REBUILD INFRASTRUCTURE, PROVIDE TRADE CREDITS AND ENCOURAGE RESCHEDULING OF DEBT MULTILATERALLY. THE GREAT MAJORITY OF ESF ASSISTANCE TO CENTRAL AMERICA HAS BEEN IN THE FORM OF CASH TRANSFERS TO PROVIDE BALANCE-OF-PAYMENTS SUPPORT. LOCAL CURRENCY COUNTERPART HAS SUPPORTED A.I.D.- AND OTHER DONOR-SUPPORTED PROJECTS, HOST COUNTRY ACTIVITIES, AND AN EXPANSION OF CREDIT TO THE PRIVATE SECTOR.

PROJECTS -- WHICH CAN BE DEFINED AS DISCRETE AND IDENTIFIABLE INVESTMENTS OF GOODS OR SERVICES LEADING TO TANGIBLE DEVELOPMENT RESULTS IN THE MEDIUM AND LONG TERM -- REMAIN IMPORTANT "BUILDING BLOCKS" OF THE BILATERAL ASSISTANCE PROGRAM. THEY ARE AN OUTGROWTH OF THE MULTI-YEAR COUNTRY-LEVEL STRATEGIES PREPARED BY A.I.D. MISSIONS. DURING ANOTHER SESSION

YOU WILL BE LOOKING IN DEPTH AT A.I.D.'S RIGOROUS PROGRAMMING SYSTEM OF PROJECT SELECTION, DESIGN, FUNDING, IMPLEMENTATION AND EVALUATION. THE SYSTEM IS ORGANIZED TO CONTINUALLY TEST ASSUMPTIONS, WEIGH ALTERNATIVES, AND FIND THE MOST EFFECTIVE WAYS TO ACCOMPLISH DEVELOPMENT OBJECTIVES.

UNDERSTANDING THE LESSONS OF A.I.D. AND OTHER DEVELOPMENT EXPERIENCE IS VITAL TO SHAPING A.I.D. POLICIES AND TO IMPROVING PROJECT DESIGN AND IMPLEMENTATION. WE HAVE MADE SUBSTANTIAL PROGRESS IN THIS AREA WITH THE CREATION OF THE CENTER FOR DEVELOPMENT INFORMATION AND EVALUATION IN THE BUREAU OF PROGRAM AND POLICY COORDINATION. LINKING EVALUATION WITH DEVELOPMENT INFORMATION ENABLES US TO ANALYZE AND SYNTHESIZE OUR EXPERIENCE AND TRANSLATE IT INTO PRACTICAL GUIDANCE FOR A.I.D. STAFF, CONTRACTORS AND OTHER DONORS IN WASHINGTON AND OVERSEAS. THE CENTER HAS UNDERTAKEN SYSTEMATIC IMPACT AND POLICY EVALUATIONS AND NOW RESPONDS TO SEVERAL THOUSAND REQUESTS EACH YEAR FROM A.I.D. STAFF AND CONTRACTORS FOR INFORMATION ON A.I.D. AND OTHERS' EXPERIENCE. WE ARE ALSO IMPROVING OUR EVALUATION SYSTEM AT THE BUREAU AND MISSION LEVELS THROUGH, FOR EXAMPLE, NEW GUIDANCE ON EVALUATION METHODS AND THROUGH TRAINING WORKSHOPS IN COLLABORATIVE EVALUATION WITH OUR LDC COUNTERPARTS.

IN THE PAST FIVE YEARS, WE HAVE SEARCHED FOR WAYS TO

ENHANCE OUR PRODUCTIVITY AND IMPROVE OUR MANAGEMENT EFFECTIVENESS. WE HAVE WORKED TO REDUCE PAPERWORK AND STREAMLINE OUR OPERATIONS -- THERE IS ALWAYS PLENTY OF OPPORTUNITY FOR STREAMLINING IN A GOVERNMENT AGENCY. WE HAVE ALSO SOUGHT TO DEAL CONSTRUCTIVELY WITH THE REALITIES OF REDUCED STAFF AND LIMITATIONS ON FINANCIAL RESOURCES. FINALLY, WE HAVE WORKED TO MAKE OUR SYSTEMS MORE FLEXIBLE AND RESPONSIVE IN DEALING WITH THE VARIED AND CHANGING DEVELOPMENT OPPORTUNITIES IN THE LDCS. LET ME TOUCH JUST BRIEFLY ON A FEW OF THE THINGS WE HAVE DONE:

-- IN 1981, THE SENIOR MANAGEMENT OF THE AGENCY REVIEWED THE VARIOUS OPTIONS ON HOW TO MANAGE OUR OPERATIONS. THE PRIMARY ISSUE WAS WHETHER A.I.D. SHOULD BE OPERATED IN A CENTRALIZED (WORLD BANK MODEL) OR A DECENTRALIZED MANAGEMENT STRUCTURE. THE DECISION WAS TO DECENTRALIZE. THE PRIMARY REASONS FOR THE DECISION WERE THAT THE AGENCY OPERATES IN MORE THAN 60 POSTS THROUGHOUT THE DEVELOPING WORLD. THE ECONOMIC, POLITICAL, ENVIRONMENTAL AND OTHER CONDITIONS VARY TREMENDOUSLY FROM CONTINENT TO CONTINENT AND COUNTRY TO COUNTRY. IT IS DIFFICULT FOR THE A.I.D. HEADQUARTERS IN WASHINGTON TO BE AS RESPONSIVE TO THE ISSUES THAT ARISE ON A DAILY BASIS. TO ACHIEVE THAT DECENTRALIZATION WE HAVE DELEGATED GREATER AUTHORITY TO OUR REGIONAL BUREAUS AND OVERSEAS POSTS IN SUCH

AREAS AS PROJECT APPROVAL AND MODIFICATION, AND CONTRACT AND GRANT AUTHORIZATIONS. THESE STEPS ARE AIMED AT ACCELERATING PROJECT EXECUTION AND OF CUTTING BACK ON PAPERWORK AND STAFF WORKLOADS, PARTICULARLY IN WASHINGTON. THEY HAVE HELPED US ACCELERATE THE DELIVERY OF ASSISTANCE TO THE LDCS.

-- WE HAVE STREAMLINED OTHER ASPECTS OF THE PROGRAMMING PROCESS. PROJECT IDENTIFICATION DOCUMENTS (PIDS), PART OF THE INITIAL PROJECT PLANNING PHASE, USED TO RUN OVER 100 PAGES IN LENGTH AND REQUIRED EXTENSIVE REVIEWS IN WASHINGTON. MANY OF THESE ARE NOW REVIEWED AND APPROVED IN THE MISSIONS. (40 PERCENT FEWER WERE REVIEWED IN WASHINGTON IN FY 85 THAN IN FY 84.) THE APPROVAL OF PROJECT PAPERS (PPS), THE FINAL PROJECT DOCUMENTS, IS ALSO BEING INCREASINGLY DELEGATED TO THE FIELD. ONLY PPS INVOLVING PROJECTS OF UNUSUAL SIZE OR NATURE ARE SENT TO WASHINGTON. WE HAVE ALSO KEPT DOWN THE NUMBER OF PEOPLE IN THESE REVIEWS IN AN EFFORT TO STREAMLINE THE PROCESS. THE AVERAGE PROCESSING TIME OF PPS IN WASHINGTON FELL BY 35 PERCENT FROM FY 84 TO FY 85. THE COMBINATION OF DEVOLUTION OF OPERATING FUNCTIONS AND DECISIONS OUTSIDE OF WASHINGTON, WITH THE RETENTION OF ONLY KEY MANAGEMENT OVERSIGHT, HAS PERMITTED ORGANIZATIONAL CONSOLIDATION AND SOME STAFF REDUCTION.

-- WE HAVE IMPLEMENTED A FIVE-YEAR REDUCTION OF 850 STAFF

POSITIONS CALLED FOR AT THE BEGINNING OF THE ADMINISTRATION THROUGH A METHODICAL, PHASED APPROACH INSTEAD OF AN ABRUPT RIF. IN FY 1985, ADDITIONAL REDUCTIONS IN OUR OPERATING EXPENSES AND PERSONNEL CEILINGS REQUIRED A REDUCTION OF ANOTHER 250 STAFF. A HIRING FREEZE WAS IMPOSED AND A NUMBER OF BUREAUS AND OFFICES WERE RESTRUCTURED. STAFF REDUCTIONS WERE MADE PRIMARILY IN WASHINGTON TO MAINTAIN PROPER MANAGEMENT OF OUR FIELD OPERATIONS.

WE HAVE APPLIED MORE STRICTLY THE STANDARD OF TWO TOURS (4 YEARS) OF DUTY AT AN OVERSEAS POST. THIS NOT ONLY SAVES RELOCATION COSTS BUT ENSURES GREATER CONTINUITY IN PROJECT MANAGEMENT.

-- WE HAVE CONDUCTED INTERNAL FINANCIAL CONTROL VULNERABILITY ASSESSMENTS TO IDENTIFY THE NEED FOR CORRECTIVE ACTION. INCIDENTALLY, WE ARE ONE OF THE FEW AGENCIES WHICH HAS REQUIRES THESE REVIEWS AT THE FIELD LEVEL AS WELL AS THE HEADQUARTERS OFFICE.

-- WE HAVE USED LDC AFFILIATES OF REPUTABLE ACCOUNTING FIRMS TO PROVIDE FINANCIAL TECHNICAL ASSISTANCE TO LOCAL ADMINISTERING UNITS. THIS HAS FOSTERED THE CONCEPT OF AUDIT AS A MANAGEMENT TOOL WITHIN HOST GOVERNMENT LEADERSHIP.

-- FINALLY, I HAVE TAKEN A PERSONAL INTEREST IN ANOTHER MANAGEMENT TOOL -- THAT OF EARLY TERMINATION OF PROJECTS WHICH ARE NOT PERFORMING SATISFACTORILY. A.I.D. HAD ALWAYS FOLLOWED THE NORMAL PRACTICE OF DEOBLIGATING REMAINING FUNDS AT THE END OF THE PROJECT WHEN COSTS TURNED OUT TO BE LOWER THAN PLANNED. BUT RARELY IN THE PAST WAS ACTION TAKEN ON AN ONGOING PROJECT WHICH WAS NOT REACHING ITS AGREED UPON OBJECTIVES. NOW, IF A PROJECT DOES NOT APPEAR TO BE PROGRESSING PROPERLY, CONSIDERATION IS GIVEN TO REDESIGNING THE PROJECT IN ORDER TO GAIN THE BENEFITS OF SUNK COSTS. IF IT IS NOT FEASIBLE TO REDESIGN THE PROJECT TO ACCOMPLISH THE ORIGINAL OBJECTIVES, EVERY EFFORT IS MADE TO CLOSE DOWN THE PROJECT AND DEOBLIGATE THE FUNDS FOR REOBLIGATION IN PROJECTS WHICH ARE WORKING WELL OR WHICH HAVE A HIGHER PRIORITY. IN THE PAST FEW YEARS, CONGRESS HAS GIVEN A.I.D. LIMITED AUTHORITY TO REOBLIGATE SUCH DEOBLIGATED FUNDS, ENCOURAGING FIELD MANAGERS TO ELIMINATE ACTIVITIES THAT ARE NOT ACHIEVING THEIR AGREED-UPON GOALS OR THAT HAVE FOR SOME REASON LOST HOST GOVERNMENT SUPPORT.

EARLIER I MENTIONED THAT A.I.D. HAS BEEN MAKING A MAJOR EFFORT TO PROMOTE COORDINATION AMONG DONORS IN THE LDCS. I CONSIDER THIS AN IMPORTANT PART OF THIS ADMINISTRATION'S EFFORTS TO IMPROVE AID EFFICIENCY AND EFFECTIVENESS. BECAUSE SO MANY DONORS AND DEVELOPMENT INSTITUTIONS NOW PARTICIPATE IN

THE ASSISTANCE PROCESS, EFFECTIVE COORDINATION HAS BECOME MUCH MORE IMPORTANT. BRINGING SOME COHERENCE TO THOSE EFFORTS IS NOT EASY. AFTER ALL, EACH DONOR, INCLUDING THE U.S., HAS ITS OWN INTERESTS AND PREFERENCES. BUT GIVEN THE CHALLENGES IN THE THIRD WORLD AND THE LIMITED RESOURCES WE AND THE LDCS THEMSELVES HAVE TO APPLY TO THEM, WE CAN ILL AFFORD TO ALLOW PRACTICES OF THE PAST TO CONTINUE TO DILUTE THE EFFECTIVENESS OF AID, OR TO OVERWHELM THE ADMINISTRATIVE CAPACITY OF THE LDCS.

THE UNITED STATES HAS TAKEN THE LEAD IN ARGUING FOR, ARRANGING, AND IMPLEMENTING COORDINATION AMONG MDBS, THE MANY BILATERAL DONORS, PVOS, OTHER PRIVATE SECTOR ENTITIES, AND THE RECIPIENTS.

AT THE DEVELOPMENT ASSISTANCE COMMITTEE OF THE OECD, WE HAVE GAINED ACCEPTANCE OF VARIOUS RECOMMENDATIONS FOR COORDINATING OUR ACTIVITIES. WHILE STILL NOT PERFECT, A SYSTEM OF RECIPIENT-COUNTRY COORDINATING GROUPS HAS BEEN IMPROVED. AID DECISIONS REACHED IN WORLD BANK CONSULTATIVE GROUPS AND UNDP ROUND TABLES ARE BEING FOLLOWED UP IN THE COUNTRY BY LOCAL COORDINATION GROUPS. WE HAVE ENCOURAGED MORE IN-COUNTRY EXCHANGE OF INFORMATION AMONG DONORS. WE HAVE ALSO BEGUN TO HELP THE HOST COUNTRIES THEMSELVES BETTER PLAN AND MANAGE EXTERNAL ASSISTANCE IN THEIR DEVELOPMENT PROGRAMS. WE HAVE

STRESSED IN A VARIETY OF FORUMS THE IMPORTANCE OF SPEAKI ONE VOICE ON DEVELOPMENT OBJECTIVES, ON ADVOCATING POLICY REFORM, AND ON ELIMINATING OR MITIGATING THE DISTORTIONS IMPOSED BY MIXED CREDITS.

MADAM CHAIRMAN, I HAVE MENTIONED THE VARIED SITUATIONS IN WHICH DEVELOPING COUNTRIES TODAY FIND THEMSELVES. I MAKE THIS POINT AGAIN NOW BECAUSE YOUR STAFF HAS ASKED US TO DISCUSS THE EFFECTS OF CURRENT LEGISLATION ON THE WAY WE DO OUR BUSINESS. IT IS OUR ABILITY TO RESPOND TO THESE DIVERSE AND CHANGING NEEDS WHICH IS OFTEN CONSTRAINED BY CERTAIN FEATURES OF BOTH THE AUTHORIZATION AND APPROPRIATIONS LEGISLATION.

LATER DURING THESE HEARINGS, WE WILL PROVIDE A RATHER COMPREHENSIVE ANALYSIS OF LEGISLATIVE ISSUES. HOWEVER, TODAY I WOULD LIKE JUST TO OFFER A FEW OBSERVATIONS IN THE CONTEXT OF CHANGING LDC ENVIRONMENTS.

FIRST, DEVELOPMENT ASSISTANCE, AS YOU KNOW, IS GOVERNED BY EIGHT SEPARATE FUNCTIONAL ACCOUNTS -- EACH WITH SEPARATE POLICY PROVISIONS -- PLUS A NUMBER OF OTHER PROVISIONS WHICH AUTHORIZE AID IN ADDITIONAL SECTORS OR WHICH DEFINE WHO THE BENEFICIARIES ARE TO BE. WHEN FUNDING LEVELS ARE FINALLY APPROVED FOR EACH ACCOUNT, SIGNIFICANT ADJUSTMENTS IN COUNTRY DEVELOPMENT PLANS

OFTEN MUST BE MADE. THE EFFECT IS THAT DEVELOPMENT PRIORITIES ARE SUBSTANTIALLY SHAPED BY FUNDING AVAILABILITIES; CONSIDERATIONS OF DEVELOPMENT NEED MAY SOMETIMES TAKE SECOND PLACE.

SECOND, THE LIST OF SPECIAL PRIORITIES EXPRESSED IN LEGISLATION CONTINUES TO GROW. TWO OF THE MOST RECENT ARE CONTAINED IN HOUSE BILLS ON TROPICAL FORESTRY AND BIOLOGICAL DIVERSITY. THE INDIVIDUAL OBJECTIVES OF EACH LEGISLATIVE PROVISION MAY HAVE MERIT. BUT IN THEIR TOTALITY THEY BLUR DISTINCTIONS AMONG PRIORITIES. THEY ALSO REDUCE OUR ABILITY TO RESPONDING TO CHANGING COUNTRY NEEDS AND THEREFORE LIMIT AID EFFECTIVENESS.

THIRD, AS RESOURCES IN REAL AND RELATIVE TERMS BECOME MORE SCARCE, THE TENDENCY TO EARMARK HAS INCREASED. EARMARKS HAVE BEEN ENACTED FOR COUNTRIES, SPECIFIC ORGANIZATIONS, KINDS OF ORGANIZATIONS, SPECIFIC PROJECTS, SPECIFIC COMMODITIES, AND SPECIFIC DELIVERY MECHANISMS WITHIN PROJECTS.

THE DEVELOPING WORLD SITUATION HAS CHANGED SINCE THE STRUCTURE OF THE FOREIGN ASSISTANCE ACT WAS ESTABLISHED. IT IS REASONABLE TO ASK WHETHER THE PRESENT STRUCTURE -- FOR EXAMPLE, FUNCTIONAL ACCOUNTS WHICH ARE GLOBAL IN NATURE -- CAN

ACCOMMODATE THE INCREASED DIFFERENTIATION AMONG THE LEVELS AND CONDITIONS OF DEVELOPMENT IN THE INDIVIDUAL LDCs. I DON'T THINK ANYONE COULD DOUBT, FOR EXAMPLE, THAT THE STRATEGIES NEEDED TO ADDRESS THE LEAST DEVELOPED COUNTRIES OF AFRICA AND THE CARIBBEAN ARE DIFFERENT FROM THOSE WHICH ARE APPROPRIATE TO THE MORE ADVANCED DEVELOPING COUNTRIES.

THE ACCOUNT STRUCTURE, THE PROLIFERATION OF "PRIORITY" AREAS AND THE EARMARKS ON ASSISTANCE CREATE A WEB OF CONSTRAINTS WHICH REDUCES A.I.D.'S ABILITY TO PURSUE COHERENT DEVELOPMENT STRATEGIES EFFECTIVELY RESPONSIVE TO INDIVIDUAL COUNTRIES.

BY THE WAY, ANOTHER KIND OF CONSTRAINT ON THE AGENCY INVOLVES THE STAFF TIME USED TO PRODUCE CONGRESSIONAL PRESENTATION DOCUMENTS AND CONGRESSIONAL NOTIFICATIONS. I'VE BROUGHT ALONG SOME SAMPLES OF WHAT WE HAVE ISSUED RECENTLY IN ORDER TO COMPLY WITH THOSE REQUIREMENTS.

IT MAY BE TIME TO CONSIDER SOME BASIC LEGISLATIVE CHANGES WHICH WILL STEER US AWAY FROM THIS INCREASINGLY FRAGMENTED APPROACH AND PERMIT THE ALLOCATION OF RESOURCES TO MORE EFFECTIVE AND EFFICIENT DEVELOPMENT STRATEGIES, SUITED TO THE DIVERSE WORLD OF DEVELOPING COUNTRIES. YOU MAY DRAW THIS AND

OTHER CONCLUSIONS DURING THE COURSE OF THESE HEARINGS. A.I.D. WOULD WELCOME THE OPPORTUNITY TO CONTINUE WORKING WITH YOU ON THESE MATTERS, MADAM CHAIRMAN.

FOR TODAY, HOWEVER, I WOULD LIKE TO END MY REMARKS ON AN UPBEAT NOTE. IT IS DISCOURAGING TO READ A HEADLINE ABOUT ACUTE FAMINE IN AFRICA, OR TO SEE HOW MUCH REMAINS TO BE DONE TO HELP THE PEOPLE IN LDCS IMPROVE THEIR LIVES. ONE MAY WELL ASK WHETHER THERE HAS BEEN ANY PROGRESS AT ALL IN THE THIRD WORLD, AND WHETHER TAXPAYERS' DOLLARS SPENT THROUGH A.I.D. HAVE ACTUALLY HELPED IMPROVE CONDITIONS IN THE COUNTRIES IT ASSISTS.

WE NOW HAVE DATA WHICH REVEAL THAT LDCS HAVE PROGRESSED SIGNIFICANTLY IN THE PAST 25 YEARS, EXPERIENCING GROWTH RATES AND IMPROVEMENTS IN THE QUALITY OF LIFE WHICH SURPASSED ACHIEVEMENTS OF THE DEVELOPED WORLD DURING COMPARABLE PERIODS OF THE LAST CENTURY A RETROSPECTIVE STUDY HAS JUST BEEN COMPLETED BY THE OECD'S DEVELOPMENT ASSISTANCE COMMITTEE OF THE YEARS 1960-84, A PERIOD IN WHICH AN INFUSION OF DONOR AID WAS INTENDED TO SET IN MOTION, BROADEN AND ACCELERATE THE PROCESS OF DEVELOPMENT IN PRE-INDUSTRIAL AND RELATIVELY STAGNANT ECONOMIES. THE STUDY SHOWS THAT 2.8 PERCENT PER CAPITA GDP GROWTH ANNUALLY -- A RATE THAT DOUBLES INCOME IN 25 YEARS -- WAS THE AVERAGE TREND RATE FOR ALL LDCS, EXCLUDING THE "SPECIAL

CASES" OF THE HIGH INCOME OIL EXPORTING COUNTRIES AND CHINA. FOR ALL LDCs THE AVERAGE TREND WAS 3.4 PERCENT. DURING 1850-1960, THE "CENTURY OF DEVELOPMENT" FOR WHAT ARE NOW THE INDUSTRIALIZED COUNTRIES, THE AVERAGE ANNUAL PER CAPITA GROWTH RATE WAS ABOUT 1.8 PERCENT.

THE OECD RETROSPECTIVE ALSO VERIFIES PROGRESS IN LIFE EXPECTANCY AND CHILD MORTALITY. BETWEEN 1960 AND 1983 LIFE EXPECTANCY ROSE FROM 44 TO 59 YEARS. THE MORTALITY RATE OF CHILDREN AGES 1-4 FELL FROM 25 PER 1000 TO 9.

A.I.D. HAS BEEN CLOSELY ASSOCIATED WITH THE PROGRESS MADE OVER THE PAST 25 YEARS, AND THE AMERICAN PEOPLE CAN BE PROUD OF ITS CONTRIBUTION TO ECONOMIC GROWTH AND QUALITY OF LIFE IN THE THIRD WORLD. LET ME CITE JUST A FEW SPECIFIC EXAMPLES. OUR INTERNATIONAL EFFORTS TO ERADICATE SMALLPOX HAVE PAID HANDSOME RETURNS IN SPARING THE PEOPLES OF THE DEVELOPING WORLD THE SUFFERINGS FROM THIS DISEASE. WE ARE NOW A MAJOR SUPPORTER OF PROMISING RESEARCH ON A NEW DRUG TREATMENT FOR LEPROSY. BECAUSE OF U.S. EMERGENCY FOOD ASSISTANCE DURING THE DROUGHT AS MANY AS 20 MILLION PEOPLE IN AFRICA ARE ALIVE TODAY.

IN WEST AFRICA'S VOLTA RIVER BASIN, A.I.D. IS THE MAJOR DONOR IN A RIVER BLINDNESS CONTROL PROGRAM. THREE MILLION

CHILDREN BORN SINCE THE PROGRAM BEGAN ARE FREE FROM THE EFFECTS OF THE DISEASE, AND 15 MILLION HECTARES OF FERTILE LANDS HAVE BEEN MADE SAFER FOR DEVELOPMENT.

IN ECUADOR WE HELPED FARM FAMILIES IN PRIVATE SECTOR COOPERATIVES PURCHASE LAND AND OBTAIN SOCIAL AND AGRICULTURAL SERVICES. A.I.D. SUPPORTED CREDIT UNIONS BENEFITTED 1.2 MILLION FAMILIES AND MOBILIZED SIGNIFICANT RURAL SAVINGS.

I AM PROUD THAT OVER THE PAST FIVE YEARS WE HAVE SUCCEEDED IN PUTTING POLICY REFORM AND MARKET-LED DEVELOPMENT SQUARELY ON THE DEVELOPMENT AGENDA OF MOST RECIPIENTS AND DONORS. THE CUMULATIVE EFFECT OF OUR DIALOGUE, AND THE ALLOCATION OF ASSISTANCE RESOURCES (ESF, DA AND FOOD AID) TO SUPPORT POLICY CHANGE, HAS HAD AN UNQUESTIONABLE IMPACT. WE HAVE SEEN COUNTRIES ADOPT MAJOR REFORMS SUCH AS CURRENCY DEVALUATION, PRICE DEREGULATION, MARKET LIBERALIZATION, DIVESTITURE OF PARASTATALS, SUBSIDY REDUCTIONS, AND TRADE LIBERALIZATION. THE RESULTS OF THESE CHANGES ARE ALREADY APPARENT. DRAMATIC INCREASES IN FOOD PRODUCTION HAVE OCCURRED IN COUNTRIES LIKE SOMALIA AND ZAMBIA. IN ASIA, BANGLADESH HAS MOVED TO LIBERALIZE ITS ECONOMY. IN A COUNTRY WHOSE PROSPECTS WERE ONCE REGARDED BY MANY AS HOPELESS, FOOD SECURITY AND ECONOMIC STABILITY HAVE BEEN GREATLY ENHANCED. FOOD DISTRIBUTION HAS

BEEN IMPROVED THROUGH AN OPEN MARKET SALES SYSTEM. PRIVATE SECTOR DEVELOPMENT HAS BEEN PROMOTED IN FOODGRAIN MARKETING.

SENATOR KASSEBAUM, WE WELCOME THIS HEARING. WE APPRECIATE THIS OPPORTUNITY TO DISCUSS HOW WE WORK AND WHAT WE ARE ACHIEVING, AS WELL AS TO SHARE OUR PROBLEMS. WE ARE PLEASED WITH THE PROSPECT THAT YOU MAY HELP US DO BETTER.

Prepared Statement of Edwin J. Feulner, Jr.

I come as a defender of AID's mission. Helping the Third World achieve real economic growth should be a high priority for the U.S. government policy. AID is the chosen agency to promote that mission. Fostering economic growth promotes better, more productive lives for the people of the developing world. It also leads to greater global stability by reducing trade frictions, countering Communist aggression and solving the debt crisis. However, AID must understand that these goals can best be achieved by gearing its operations toward an emphasis on the free market and the private sector.

AID deserves praise for many of its programs, especially in the area of technology development in the lesser developed countries. It

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directly helps improve the lives of aid recipients. A good example of this use of new technology is the oral hydration therapy program for babies who suffer from life-threatening dehydration. AID has also demonstrated some progress toward institutional reform by such means as revising internal bureaucratic incentives to reward career employees, in particular new directors of programs for particular countries, as a means of both implementing and developing programs.

But in its most important and long term aim, promotion of market-oriented changes abroad which reflect the fundamental economic policies of the Reagan administration, AID has largely been a failure. To be sure, AID takes credit, along with the World Bank, for promoting market-oriented changes, such as the elimination of price controls and subsidies, in certain Third World countries. However, these changes have often been neutralized by AID support for higher taxation and rigid budget-balancing, which have a perverse effect of stifling individual incentives and reducing economic growth.

Although the Administration has a stated policy of encouraging private enterprise in the developing world, AID has not directed major efforts toward the removal of the many and varied obstacles inhibiting indigenous private enterprises in recipient nations; in fact much of AID's attention seems to have been focused on subsidizing U.S. business sales abroad.

Virtually all our aid grants and loans have been funneled through recipient governments. This not only strengthens the governmental sector relative to the private sector, but helps perpetuate governmental failures. The easy availability of foreign aid, in other words, prevents governments from reassessing their failed policies. They have not been forced to deal with the fact that nationalized industries do not operate as efficiently as private firms, because government subsidies, partly derived from U.S. aid, were available to offset operating losses. Nor have governments been forced to deal with the fact that many of their policies -- from high tax rates, to exchange controls, to restrictions on foreign direct investment -- have been counterproductive. Why should a government ease restrictions on foreign direct investment, for example, when foreign aid and bank loans, made directly to the government, are available?

At long last, many governments seem to be confronting the bankruptcy of their policies. We are now seeing many governments -- even socialist ones -- privatize nationalized firms, cut taxes, loosen restrictions on foreign direct investments and take other actions to free the private sector.

This new attitude of realism has been complemented by new attitudes among the development institutions. Last year, for example, Treasury Secretary Baker presented a plan for dealing with the international debt crisis which basically requires developing countries to adopt free market policies as a condition of both official aid and private bank loans. The interesting fact about Secretary Baker's initiative, I believe, is that the reaction from developing nations, from the industrialized countries, and from the World Bank has been positive. It was as though Secretary Baker simply articulated or made official what everyone had come to accept as the necessary precondition for an effective policy.

In my opinion, the Baker Plan forms a framework for dealing with the Third World which ought to apply to U.S. bilateral assistance as well. I believe that U.S. development assistance ought to be directed more toward inducing the kinds of policy changes in the developing countries which will foster growth through the private sector. Basically this involves removing government impediments and disincentives to private sector development.

Now, what must AID do to promote private sector development in the Third World? I suggest seven specific policies:

1) Coordinate other U.S. policies which relate to the developing world. For example, trade policy is increasingly important, and there is enormous political pressure here in the United States to put restrictions on imports from developing nations. It would help if AID could be a more forceful advocate for the expansion of foreign trade as a prime means of helping the Third World. Many developing nations depend on their trade with the U.S. to raise hard currency and to reduce their dependency on economic assistance.

2) I think there also needs to be better coordination between U.S. bilateral aid progams and those of the multilateral development

banks and the IMF. With the new president of the World Bank coming in, my colleagues and I believe there is an exceptional opportunity to coordinate more closely bilateral programs with the World Bank. I particularly call your attention to Heritage Backgrounder #501 titled, "Barber Conable At The World Bank: New Hope For World Economic Growth" which enumerates these opportunities.

3) Many developing countries know they need to make economic reforms, but they don't know how or what to do. In tax policy, for example, AID could develop model tax systems for developing countries based on the principles of low marginal tax rates, fairness and simplicity. A good start was made in this regard last year when AID commissioned Alvin Rabushka of the Hoover Institution and my colleague at The Heritage Foundation, Bruce Bartlett, to study the tax systems of the developing nations and their impact on growth. Their work shows clearly that those nations with low marginal tax rates do better than those with high rates. This work is confirmed by research studies at the World Bank and elsewhere. Field studies, case studies, further research into other areas of taxation, and development of model tax systems now need to be developed. But to my knowledge AID has not done these things. Perhaps this is due to the bureaucratic resistance to free market ideas which still exists among some employees at AID. And of course, the same kind of research needs to be conducted in such areas as privatization, deregulation, and trade.

State-owned enterprises in developing countries are grossly inefficient and usually cost billions of dollars in subsidies and in lost goods and services. Many developing countries, both on their own and at the urging of the U.S., are considering privatizing the state enterprises, turning them back over to the private sector.

LDC's wishing to privatize these enterprises face both technical and political difficulties. For example, there often must be guarantees that the transition should not unduly disrupt essential services. Resistance from employees and customers of state enterprises, politicians and state bureaucrats must be overcome. Techniques and strategies for privatization have been developed in the U.S. and Britain. Successful privatization efforts have yielded valuable lessons. Yet much of this information is unavailable and unknown in developing countries. AID could render a valuable service by collecting and distributing such information to developing countries wishing to strengthen their economies by ridding their governments of wasteful state enterprises.

Suppport for private enterprise-oriented development education would be in keeping with the recommendations of the Carlucci Commission on Security and Economic Assistance.

4) AID's current bloated and unwieldy bureaucracy could prove to be a more efficient policy instrument if it were reorganized along the lines of one of the Agency's own divisions: the Office of Foreign Disaster Assistance. With an FY 1986 budget of only $21.5 million and a full-time staff of just 20, OFDA achieves more bang for the

taxpayer's buck than most larger government agencies or offices. It directly and quickly responds to disaster assistance needs with a minimum of bureaucratic interference and has proven a highly cost-effective means of creating goodwill towards the U.S. among diverse recipient populations.

5) AID's statutory authority, objectives, and focus should be amended by Congress to more clearly define our policy goals. Much U.S. foreign aid is security related, in contrast to humanitarian or development assistance. Clearly a significant proportion of AID monies allocated for Economic Support Funds (ESF) are really security-related, as they are used to maintain political stability in recipient nations through financial transfers to resolve balance of payments difficulties and other problems. AID's function should therefore be divided proportionately between political/security divisions and economic development divisions. A portion of ESF allocations should be used solely for the provision of direct cash grants to recipient nations on a strict "strings attached" basis, and would be made contingent on recipient nations implementing policy reforms that promote private enterprise and tax reform along the lines of the Baker Plan. I have dubbed these incentive grants "Structural Reform Inducement Funds" or SRIFs to lend a diplomatic facade to what would really be an economic incentive get important policy changes. Disbursement of these Structural Reform Inducement Funds (SRIFs) would be made contingent on recipient nations implementing policy reforms that promote the private sector and advance tax reform. SRIF grants

would also be more efficient than AID loans, which rarely meet repayment schedules and which represent a nightmare for the General Accounting Office. I believe SRIF grants would promote honesty in accounting and give the U.S. greater leverage over the recipient nation.

6) AID's true developmental and humanitarian functions could be served by a streamlined division oriented toward small, grass-roots style development projects. In this era of Gramm-Rudman-Hollings, we should work on trimming the fat off AID's big ticket projects. As the great developmental economist Peter T. Bauer, now Lord Bauer of the London School of Economics, points out, large-scale spending on show projects in LDCs often contributes more to the self-agrandizement of rulers than to the alleviation of poverty. Small-scale projects, if efficiently administered, can have a much greater impact on LDC employment, infrastructure development, and positive local perceptions of the U.S. than grandiose engineering projects such as the superhighway project on Grenada. This project, I believe, reflects AID's lack of understanding of that important island's real needs. We could learn something from the European Economic Community's development assistance program in the Eastern Caribbean, which has been able to to build roads in places like Grenada for a fraction of what we spend on similar projects.

There is inherent racism in the idea that the West must continually subsidize the developing world because these nations are unable or incapable of adopting our standards of entrepreneurial activity and self-sufficiency. Given the chance, and the proper incentives, any Third World country can become a free market success story. The small West African nation of the Ivory Coast is a prime example of this, with an economy so strong that it plays host to nearly two million guest workers from neighboring countries.

7) Congress should consider legislation to explicitly tie AID assistance to recipients' votes in the United Nations and their overall support for the United States. I find it absurd that a country like Zimbabwe is one of the largest recipients of U.S. assistance in Africa even though our U.N. Ambassador, Vernon Walters, rates it as the most hostile to the U.S. of all the nonaligned black African states.

AID's mission is a noble one. Assisting Third World development provides economic and social stability, two of the cornerstones needed for the construction of democracy. At the same time, aiding free market economic growth serves our international security interests, both by alleviating social and economic inequalities, and also by offering a clear contrast between the dead ideology of Marxism-Leninism on the one hand and a system of democracy and free enterprise on the other.

Prepared Statement of David Shear

For the first time since the advent of African independence, there is a general consensus by both the donor community and the African States themselves on the major constraints to African economic development. These include the need for overall macro-economic policy reform and sectoral reforms which emphasize agriculture; especially food production. There is also a growing agreement on the importance of environmental protection and rehabilitation as an essential prerequisite to increasing agricultural production overall. Population growth has also now been accepted by the African countries, as well as the donors, as a fundamental constraint to growth. The relationship of health and nutrition to agricultural production is also understood and agreed upon. The technology to deal with many of these issues is well known and experience elsewhere in the world and in our own country gives promise for resolution of these basic problems.

In light of these developments, Interaction, the organization representing almost all of the major American PVO's working overseas, has proposed a major restructuring of current U.S. assistance programs as they are conducted in Africa. The legislative concept paper developed by a special Interaction working group recommends continuation of some aspects of the current program and builds upon the new directions found in Section 102 of the Foreign Assistance Act. These recommendations for new legislation concentrate, however, on the core impediments to development in Africa which I have just mentioned. The proposed new legislation would concentrate AID's efforts on agricultural production with a marked emphasis upon food production, focusing on the small producer -- the farm family. It acknowledges and builds upon the over exploited and under appreciated role of women in the agricultural production system. It strongly supports increased efforts in family planning and health. Overall, we are looking toward an increase in rural income and also to a more equitable distribution of that income.

The Interaction proposal also calls for a long term approach to these problems. We are asking for a 20-year planning horizon, in order to deal properly with environmental problems and the development of Africa specific agricultural and technical packages. The proposal also recommends no year funding, and a greater program concentration of all resources, financial, technical and managerial than is currently the case. We are seeking to relate agricultural production directly to other major impediments. Here, one has to look at the natural resource base itself. Major programs of environmental rehabilitation as well as food production should be funded under the new legislation. Another major constraint to increasing agricultural production in Africa is of course, human resource development. Here we should include basic human health and family planning. The constraint on a rapidly growing population, disease ridden and incapacitated at the very time when energy is most needed in the fields is one of the greatest problems. Therefore, we are looking to the introduction of self-sustaining primary health care programs. We have already seen in a number of African countries that these can be supported both managerially and financially by the beneficiary populations.

In looking at human resources development we are not in favor at this time of conventional institution building, for we believe that many of the educational institutions in Africa, while useful, are also very wasteful of national resources. We see countries in Africa where 40% of the recurrent budget goes for educational systems which are not producing graduates relevant to the needs of that country. Therefore we would urge within the initial period of the proposed legislation, a concentration on literacy and numeracy, i.e., informal education. The producers themselves must become more literate and numerate so they can understand credit, new technical packages, and primary health care education. U.S. interest in developing the African private sector is supported and the relationship of increased agricultural output to off-farm private sector employment emphasized.

The proposal also calls for all U.S. foreign related institutions active in Africa to concentrate their efforts towards the objectives of the legislation. These include Peace Corps, the African Development Foundation, the Overseas Private Investment Corporation and Export-Import Bank. In order to help concentrate the focus of AID both in terms of its policies and its managerial capacity, we are calling for the elimination of the functional accounts. I realize that this causes some concern and we need to work with the Congress on reporting mechanisms from AID so such important and sensitive areas as health and population are protected. We also want to emphasize the relationship of rural health programs to introducing family planning into rural societies.

In addition to project financing, we also perceive and accept the requirement to move funds into non-project assistance in order to affect the current policy climate. The policy impact of AID is constrained by the limitation on using only ESF monies for non-project assistance. This means that only those countries which are politically important to the United States receive non-project aid. We believe non-project aid should go to all countries which are undertaking the necesary policy reforms.

The Interaction legislative proposal also emphasizes the role of multi-lateral organizations particularly in the policy area and in areas that are sensitive to direct U.S. bi-lateral interventions. Therefore, IDA, IFAD, and the African Development Fund, and UNFPA come in for special consideration.

We also believe that special areas such as trade and development coordination need to be emphasized and rejuvenated, and lastly, the whole question of debt should be reexamined even though the Africa specific legislation probably would not contribute to that issue directly.

How can we presume to put forward these proposals in the face of Gramm-Rudman legislation? The Interaction legislative proposals were developed and made public before the passage of Gramm-Rudman which now cuts right across its bows. While Gramm-Rudman is an important phenomenon it is hopefully a relatively short term one in relation to Africa's long term development problems. It is also a uniquely American phenomenon and one has to have the vision to look beyond current U.S. constraints and to see our efforts in relation to the larger international community. Strong U.S. participation in long term development in Africa is an encouragement and a stimulus to other donors. We must remember that the U.S. contribution to external African development financing is in the neighborhood of 10% of the total. So the stimulative effect of what we can do is as important as our own direct efforts.

After almost a year of effort, we are now gratified that draft legislation containing many of the Interaction recommendations has now been introduced by Senators Kasten and Kennedy.

We have high hopes for this bill despite the current atmosphere of budgetary constraints. If legislation is passed which essentially consolidates the aid programming resources, concentrates on what we believe are the fundamental causes of African impoverishment and provides a long term planning framework with no year funds, we think we will have achieved significant success. We could then look toward future fiscal years to bring about the net increases in financing which we would have hoped to achieve this year and which, over time, are absolutely essential.

There are many elements of the proposed legislation which will increase AID effectiveness in addressing impediments to project preparation and implementation. By providing funds which will be available until expended, i.e., no year monies, the normal year-end rush to obligate funds for hastily prepared and negotiated projects will be eliminated. The consolidation of functional accounts into a unitary fund will simplify project preparation and implementation. For example, complex projects such as river basin development which include several sectors now require funds from a number of functional sources. As a result, it is often difficult to budget for the life of the project since each functional account fluctuates from year to year and is subject to pressures from Regions outside the Africa Bureau. Those pressures frequently reduce the availability of funds late in the fiscal year, thereby disrupting project negotiations and forward planning.

A single, consolidated account for Africa will also increase the policy effect of programs since funds scheduled for support of specific policy reforms will be actually made available and not deferred until the subsequent fiscal year. Nothing discredits U.S. assistance efforts more than the inability to deliver after we have succeeded in getting the recipient country to agree on difficult policy changes. As a result we are often seen as an uncertain partner by the both African countries and interested donors alike.

The working draft of the legislation also eliminates a large number of time consuming reporting requirements which have developed over the years. Liberalizing procurement practices to include the purchase of goods and services from all sub-Sahara African countries will also facilitate project implementation. All too often commodities are purchased from the U.S. when their equivalent is available locally and at a lower price.

The new legislation also urges improved donor coordination. I cannot emphasize too strongly the efficiencies to be derived from improved cooperation. The exchange of information both at headquarters and in the field facilitates project development and execution immeasurably. It also greatly increases the policy effect.

The intent of the legislation is also to encourage the AID bureaucracy to develop projects for their development impact. All too often projects are planned and approved because they are safe not because they will make a difference. Strong Congressional support for the policies elaborated in the proposed bill is intended to embolden AID into undertaking truly innovative programs and in streamlining procedures relating to project formulation and implementation. Since much of AID's hesitancy to streamline procedures is based upon an historical concern for Congressional oversight and criticism, it is only appropriate that the Congress now help that Agency to engage the problems of African development more directly and with greater efficiency.

Prepared Statement of James L. Collom

SELECTION, PLANNING AND DESIGN OF AID PROJECTS[1]

Need and Opportunities for Change

Madam Chairperson and Members of the
Senate Foreign Relations Committee:

The Land Grant Colleges and Universities have long been committed to the U.S. development assistance program. They have supported and conducted an important fraction of the work of the Agency for International Development. They have also worked with Congress and the Agency to enhance AID's contributions to agricultural development abroad, most notably in the creation and implementation of the Title XII Amendment to the Foreign Assistance Act of 1961. This hearing is a continuation of that collaborative effort. We are pleased to participate.

The degree to which the Agency for International Development is able to achieve its objectives in development assistance is determined importantly by how the Agency:

- allocates resources among alternative uses,
- identifies and conceives projects, and
- plans and designs projects.

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[1] Statement for the record; Senate Foreign Relations Committee, Congress of the United States, Washington, D.C., April 22, 1986. Prepared by James L. Collom, Associate Director of International Programs in Agriculture and International Education and Research; and D. Woods Thomas, Associate Dean and Director of International Programs in Agriculture and International Education and Research, Purdue University, West Lafayette, Indiana.

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Certain difficulties associated with the operational framework within which the Agency works make it difficult to carry out each of the above functions with excellence. Difficulties described below which AID faces may have a negative impact on the allocation of resources as well as on the selection and design of projects. These difficulties often reinforce each other to create an even larger obstacle.

1. Inadequate staff numbers in Agriculture and Rural Development. In 1986, AID will have 230 agricultural officers, only 7.2% of the total workforce of the Agency. Eighty-three of these, more than one third, are in non-agricultural positions, generally those of higher level administration. AID does not have enough well trained and experienced agricultural professionals to adequately analyze the local situation, select high priority, high payoff project opportunities and supervise project design and implementation. The quality of work in each of these tasks suffers as a result.

2. The two plus two year pattern for assignment of staff to overseas missions creates a short-term mentality and approach to many aspects of mission programming. It is unreasonable to expect an overburdened staff with a 2- to 4-year outlook on a given country's set of problems to fully reflect a long term development approach in their project selection and design activities. While the Agency's Country Development Strategy Statements (CDSS) and Annual Action Plans are designed to bridge this gap, it is not at all clear that they can.

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3. The Agency faces a continuing problem in attempting to evaluate and reward, in the short run, staff performance in dealing with long-term problems. In the area of development assistance, high-quality performance in resource allocation, project selection and project design will often be visible only years after staff have departed and then only if intervening staff have maintained project direction and contributed effectively as well. Further, the measurement of outputs or accomplishments in development is clearly difficult. As a result the focus often shifts to measuring inputs. It is not clear that there is adequate incentive for staff to invest heavily in selection and design of long term high payoff projects.

4. The recent decentralization of administrative authority in AID has further complicated the environment. Greater delegation of authority to highly diverse country missions, inadequately staffed with agricultural development professionals, raises several issues. First, it appears to have become more difficult for AID/Washington to maintain emphasis on a particular theme or approach. Second, communication and discussion of new approaches and their implementation are more difficult. Third, assigning greater responsibility and authority to already overburdened field staff tends to push mission programs toward short term perspectives, larger projects and large capital transfer activities.

5. The development assistance activities of AID appear to be heavily impacted by forces outside the Agency and the developing nations which it assists. Included are formal and informal Congressional

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actions, State Department policy and objectives, the administration's views on development assistance, actions of other donors and the like. Examples include the "poorest of the poor" legislation of the last decade, recent sharp growth in Economic Support Fund activities, increased emphasis on competitive procurement and the private sector thrust.

It is difficult for the Agency to steer a steady course of high payoff economic development interventions when it feels obliged to be responsive to such externalities. Some feel that it tends to over-react and/or to misinterpret, at times, the intent of the outside forces.

Be this as it may, there is considerable evidence that such forces change and sometimes distort the Agency's economic development program. There is increasing feeling that the Congressional guidance to AID and the universities embodied in the Title XII Amendment to the Foreign Assistance Act, backed up by specific AID global policies and the work of the BIFAD, is being abrogated by such externalities.

These basic difficulties are particularly significant when they interact with each other at the mission level to impact on resource allocation and project selection and design. Under pressures created at the mission level, the following may occur:

- De-emphasis of investment in carefully designed long term projects with increasing reliance on large-scale capital transfers and similar kinds of activity. Effective design of long-term

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projects, particularly complex ones such as institution building, may be too slow, too demanding of technical knowledge, require more manpower and management than missions can effectively provide and move funds too slowly to meet demands of the mission investment targets. AID personnel suggested at recent Title XII seminars that, in some Regional Bureaus, as much as 40% of new obligations next year could be in large scale sector grant or loan programs.

- Difficulty in adopting desirable new approaches may occur. Both AID and BIFAD have suggested that the Collaborative Assistance Mode of contracting is a desirable approach to achieving improved quality in both design and implementation of some classes of projects. This approach has not been utilized widely. Approximately 250 projects with institution building characteristics in agriculture, rural development and nutrition have been initiated in the 10 years since Title XII began. Only 35 (or 14%) have used the Collaborative Assistance Mode for project design and implementation. The BIFAD has indicated that use of Collaborative Assistance appears to be declining. Likewise, the Technical Support to Mission Program, which holds promise of using the growing capacity of universities to contribute to AID processes of project selection and design, has not been implemented as rapidly as both AID and BIFAD anticipated.

- Despite Congressional expectations embodied in the Title XII Amendment of greater involvement of universities, they now appear

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to be excluded from certain AID activities, on the one hand because they are not "public agencies" and on the other because they are not "private sector" organizations. Some projects for which Title XII universities would otherwise be eligible may be restricted to "public agencies" such as the USDA or the International Agricultural Research Centers, while others are restricted to "private sector" firms. The fact that both the former and the latter often turn to universities for staff make the matter difficult to comprehend.

All of us who are committed to the concept of development assistance must be concerned about the allocation of our overall foreign assistance program resources at three levels:

- Development Assistance in general: Only 22% of U.S. non-military foreign assistance resources is allocated to bilateral development assistance in 1986 ($2.127 billion of $9.720 billion).
- Among the functional activities in AID's budget: The percentage of bilateral development assistance resources allocated to Agriculture, Rural Development and Nutrition (Section 103) has decreased by more than 10 percentage points in the last 2 years. (1984 = 54%, 1986 = 43%)
- Composition of the development assistance program, particularly in agricultural and rural development: Resources are not being concentrated in what appear to be the higher payoff investments of human capital formation, development of adapted technology through applied research, technology transfer and the development of indigenous institutions required to provide these services over

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time. Despite a renewed commitment to institution building by the Agency beginning in the late 70s, the proportion of AID Section 103 account funds allocated to institution building decreased in Africa from 1980 to 1985, remained stable in Latin America and the Near East and increased only in Asia. Capital transfers, which appear even less likely to be applied to high payoff project areas, make up a significant portion of AID's use of Section 103 funds. (Allocations to capital transfers varied between 10 and 50% of Section 103 obligations worldwide during the period 1980-1985).[2]

The overwhelming importance of the rural sector in developing countries and the urgent needs of the preponderance of the developing country populations who live in poverty in the rural areas is recognized. However, the allocation of resources to the higher payoff opportunities to address their needs does not fully reflect this recognition. Resources allocated to all agricultural institution building and non-institution building support of research, extension, education and training from Section 103 comprised only 11.8% of our bilateral development assistance expenditures in 1985 ($293 million of a total $2,471 million). Considering the combined resources of Section 103, ESF, Sahel and SDA accounts, such high payoff investments were allocated only $413 million of our development assistance resources--16.7% of the bilateral development assistance program--or

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[2] Recommendation of the Board for International Food and Agricultural Development (BIFAD) on the AID Program and Budget for FY 1985 in Agriculture, Rural Development and Nutrition. AID, Washington, DC, February 1984.

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3.7% of our total (non-military) development assistance resources ($413 million out of $2,471 million and $11,090 million, respectively).

It appears that desirable changes in the allocation of resources are possible. The new strategy for Africa focusing on institution building for research and education is one significant example. The Section 103 account should be allocated a greater fraction of funds available from overall development assistance program. A substantially greater proportion of the available funds should be directed to the high payoff, carefully-targeted opportunities in institution building, applied research, extension and training for the rural sector. We also believe that the Land Grant Colleges and Universities could be involved at a much higher level to ensure effective use of that larger resource allocation.

There are important, far reaching opportunities for other changes which could lead to improvements in the allocation of development assistance resources and in the selection and design of AID projects. Both Congress and the Agency have opportunities to reevaluate and reorder the allocation of resources. Universities could commit greater staff resources to assisting AID. The issues were carefully described and recommendations made in BIFAD's Budget Recommendations for AID's FY 85 budget. Two years later it is not clear that the situation has changed much in relative terms. The overall level of resources available has decreased. Perhaps as a result, it appears that AID has largely been unable to implement the recommendations. The difficulties described above appear to be continuing to lead the Agency in the opposite direction from BIFAD's recommendation.

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The Land Grant Colleges and Universities cannot do very much to change directly the allocation of resources either by AID or by Congress. They can, however, help AID address and resolve some of its basic difficulties and enhance its capacity to invest more fully in well selected, well designed projects focused on high payoff development assistance opportunities. The remainder of this statement addresses this potential in five critical areas:

Development of Country-Specific Analytical Capacity - The limited number of technically-trained staff available to missions, combined with short tours and high turnover, results in an inadequate base of knowledge and analytical capacity within the missions relative to the size and complexity of the investment decisions which must be made. It will be extremely difficult for AID missions to improve project selection without enhanced ability to identify and select among many high payoff opportunities. The U.S. universities' agricultural and development faculties could, if engaged effectively over a long period in a given country or region, provide AID missions this capacity. Objectives of such efforts would include systematic analysis of various sub-sectors of the rural sector, identification of a larger number of project alternatives, prioritization of alternatives and development of analyses leading to improved project selection and to more productive interaction on policy with host governments.

Reordering of Mission Portfolios - With an enhanced ability to select high payoff opportunities and with institutional and policy changes to foster a longer-term perspective on development, AID missions could move towards greater reliance on a smaller number of institution building and other projects of longer duration. This approach could reduce substantially the pressure for high turnover of AID mission portfolios.

Enhanced Project Design - With a greater analytical capacity, more carefully targeted project opportunities, and lower turnover in portfolios, substantial improvement in project design could be achieved. Current approaches to design which utilize rapid deployment of "pick-up" design teams to do project designs under severe time pressures has changed little in the past 10 years. Under the modified approach suggested here Collaborative Assistance could be invoked in a much higher percentage of cases. In the collaborative assistance mode, design responsibility carries with it implied responsibility for implementation. Thus, a major fault of current design process, i.e. that those who design have little responsibility for success of implementation, can be overcome. Most Title XII institutions are prepared to take responsibility for Collaborative Assistance Mode projects. We believe substantial improvements in project design will result. At the same time, more mission staff time and effort would be available to focus on the remainder of the design efforts.

Greater Investment in Human Resources - A common concern across virtually all AID projects is that of the development of indigenous human resources. Investments in human resource development result in some of the highest payoffs among AID interventions. Examination of recent programs suggests that AID has underinvested in this area.

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Missions need a coordinated strategy to address this matter. Individual projects vary greatly in their approach to human resource development. Most design efforts start from scratch to develop training programs. They face obstacles common to the human resource development area. Each AID mission, under the portfolio revision suggested above, might develop a stronger coordinated strategy and expanded manpower development thrust. While individual projects should continue to design and implement training efforts, some common needs should be addressed at the mission level. This kind of program has existed in the past in missions where staffing was adequate. Where staffing is a problem, Land Grant Colleges and Universities are well equipped to conduct such programs for the missions, perhaps under long-term contract.

Comprehensive Implementation of the Technical Support to Missions Concept (TSM) - Under Title XII, AID and U.S. universities have begun limited implementation of the TSM program as a narrowly defined mission support activity. Through this program, small numbers of university staff have been called upon to provide short-term help in project design and evaluation and technical expertise to the missions. Title XII, as passed by Congress, encompassed a broader vision of the AID/university partnership. This broader vision would include some form of TSM for every AID country, committing a university to a long term relationship with the mission, the country, the institutions and a long term commitment to resolution of the pertinent development problems. This view foresees an AID/university partnership as opposed to today's more prevalent contractual relationship. It includes long term assignment of university staff to enhance the mission capabilities. It includes university commitment to the data collection and analytical process. It would require the university to develop and contribute long-term staff stability and program memory. The scope of such a support program could include the development and administration of a mission's human resource development program as described above. A partnership between AID and universities requires greater commitment to Title XII than perhaps either has shown to date.

The magnitude of the development problems faced by the developing nations and the importance of their resolution to the economic and political well being of the U.S. demands that we concern ourselves with the degree to which AID achieves its mission. Significant concerns exist regarding the allocation of resources to and within AID's programs, and in regard to the processes of project selection and design. Some of the reasons for these problems are evident. We believe that solutions exist. The Land Grant Colleges and Universities have unique resources to assist AID. These resources can and should be marshalled as called for in Title XII. The Universities are prepared to work with AID to bring about the kinds of changes which have been proposed. We are confident that these changes will contribute to greater success in attaining our nations's development assistance goals and objectives.

Prepared Statement of Elliott R. Morss

Ms. Chairman, Ladies and Gentlemen:

I appreciate this opportunity to testify before you on issues concerning our foreign assistance program. Prior to my appointment at Boston University, I was a principal in one of the largest consulting firms doing business with AID; and before that, I spent several years on the staff of the International Monetary Fund. I have no affiliation with my former firm or AID at this time. I recently co-authored a book that assessed our aid program and am currently finishing another book that focuses on the future of western development assistance.

Today, I have been asked to restrict my remarks to issues concerning project design. I will try to do this, but I believe this requires us to confront a larger issue: whether the future objective of our aid program is to buy political allegiance or to help countries put themselves on sustainable paths of social and economic growth.

The Growth of Congressional Restrictions

Projects are one form in which development assistance can be provided. A project is nothing more than a plan to get from one point to another. It may be distinguished from other forms of assistance such as balance of payments support, most forms of commodity assistance, and military aid in which the objectives are less clearly defined. In the 'fifties and 'sixties, AID was provided primarily through programs. Programs were intended to have a development impact, but the idea was that concrete projects would be developed by the American technical assistance team in conjunction with their counterparts once the program assistance was underway. This gave these groups considerable freedom in determining how the money was spent.

By the early 'seventies, Congress, AID, and the growing cadre of donors became more assertive regarding the forms of development assistance that should be provided. This assertiveness manifested itself in a desire for greater control; this was accomplished by switching the bulk of development assistance from program to project form.

Problems regarding the project design process are not new, but they became serious in 1973 when the "New Directions" legislation was enacted. More generally, it has been since 1973 that the legislation has been increasingly littered with Congressional requirements and restrictions.

Leaving aside questions regarding the substantive merit of these various requirements, they involve a number of costs that are worth listing:

a. budget line items - legislation requires that certain amounts be spent on such things as education, health, etc. These items significantly reduce AID's flexibility to support the highest priority needs in particular countries; at a time of no program growth, it makes it impossible for AID to initiate new program activities such as in the field of communications where AID was enthusiastic enough to issue a policy paper but has no funds to initiate activities; perhaps most important, it makes it extremely difficult for AID missions to coordinate their programs with those of other donors;

b. minority, small business, PVO, and university set-asides - for each of these groups, there are seemingly good reasons to give them a competitive advantage over others for Federal business. However, in providing foreign aid, the costs outweigh the benefits. In comparison with domestic programs, logistics and personnel requirements are severe, the ability to monitor their activities is restricted because the people they are trying to help frequently have no way to complain when things go awry, and frequently, their failure to perform have caused us serious embarrassment and waste of resources; all of this has injected a destructive cynicism into the contract award process;

c. project design requirements - Congressional requirements are clearly the most important contributor to the "bulk" project design problem. By "bulk" problem, I am referring to the excessively lengthy request for proposals document (RFP), and the excessively long responses required thereto. Bulk in itself is not a problem (paper is cheap), but it detracts attention and effort from critical project design questions. I can tell you from personal experience that worries about complying with legislative mandates have kept designers from spending adequate time on crucial project design questions.

Project Results

The Congressional restrictions mentioned above would be tolerable if the project results had been acceptable. But they have not. With all the time and effort involved in project design work, the record of a troubling number of disaster projects must be addressed. What went wrong and what should be done?

As mentioned above, the number of donors increased as did the popularity of the project mode as an aid disbursement mechanism during the 'seventies. Each donor became more specific regarding how its monies should be spent and the length of time projects should be allowed to run. At the same time, there were also pressures on donor staff to disburse large sums of monies within given time frames. The increase in donors, project intensity, and disbursement requirements overwhelmed developing country institutions, particularly in Africa. This resulted in projects that were overly optimistic in terms of: means, ends, time frame, and recipient country support. At the beginning of this period, these optimism excesses were excusable, but by the late 'seventies, they were not and yet, they continued. They continued largely because of the bureaucratic pressures mentioned above.

In retrospect (and this was harder to see at the time), the designs suffered from other problems: there was too much focus on the the micro level e.g., area-specific projects to achieve some sectoral objective. Also, given the complexity and logistics involved in the projects designs, they erred in terms of not putting enough emphasis on recruiting good managers. Instead, they usually called for a long list of technicians, and one of them was expected to be the project manager. What should have been obvious only became so later; namely, there is no reason to think good technicians will make good managers.

The problems resulting from the points mentioned above could have been at least partially dealt with during project implementation if AID had emphasized project implementation and had supported flexibility in dealing with foreseen and unforeseen problems as they emerged. This did not happen. While AID did finance research on implementation problems, held conferences on the issues, and introduced training sessions, AID's most competent cadre continued to work on project design and left lesser officers to deal with implementation problems. For the most part, these lesser officers followed the safe track which was to insist that projects adhered to project design specifications, regardless of whether project changes made sense under the circumstances.

In response to the continual generation of unrealistic projects, a number of us called for greater accountability from persons responsible for the design and implementation of projects. Accountability was only possible if project outcomes were assessed, and to that end, Senator Glenn sponsored an amendment to the Foreign Assistance Act calling for increased evaluation efforts. As a result of this amendment, AID's evaluation activities were increased, but they did not lead to the desired outcome. This is partly because with AID's rotation of personnel, it is difficult to assign responsibility for project outcomes. It is also partially because AID's evaluation offices do not have the independence and power to be objective and get changes recommended in project evaluations adopted. To this day, accountability mechanisms within the Agency for project outcomes (as distinct from whether monies were spent as called for in project designs) are extremely weak.

In light of this disappointing experience of attempting to introduce accountability from the outside, I am not enthusiastic about recommendations for institutional reforms to increase accountability. Instead, I believe the AID Administrator should make a new commitment to project implementation activities and project outcomes. There would be no better way for the Administrator to emphasize this commitment than to have him cancel a few of the more obvious project disasters (he has done this in the past), assess blame, and dismiss or demote personnel or contractors responsible for approving or perpetuating these disasters to (the best of my knowledge, he has never taken these latter steps).

However, I do not want to leave the impression that AID staffers or contractors are totally or even primarily responsible for project shortcomings. There are two other root causes that need to be addressed. The first are the legislative directives and restrictions under which AID must operate. The second are the allocation decisions made by the Administration regarding levels of aid disbursements among countries.

The legislative problem could be largely eliminated if all development assistance monies were transferred to ESF accounts, and the criteria qualifying for ESF monies were expanded to include countries that currently qualify for development assistance monies. Like many of you, there are a number of directives controlling the use of development assistance monies that I support, such as the line item for population planning outlays. However, on balance, I feel the development assistance legislation has become so "larded up" with the "enthusiasms" of various groups, I feel that on a net basis, giving AID the opportunity to operate with a freer hand would be worth it. Adoption of these recommendations would be an extremely simple way to remove the most onerous restrictions that have been built up over the years through a continuing process of patchwork legislation.

The second problem root cause may even be more difficult to deal with. Increasingly, aid allocations among countries are dictated by political considerations. As indicated earlier, there a fundamental incompatibility between attempting to purchase political allegiance and trying to promote economic self-sufficiency. There are already sad examples of how such uses of aid monies have created dependency states. No reforms in the project design process can be expected to promote national self-sufficiency when the nation has been promised enormous amounts of economic and military assistance by the United States. Such promises can easily overwhelm any incentives the people of the developing country might have to become self-sufficient. Tragically, there is growing evidence to support this assertion. The most notable cases include Israel, Egypt, and Turkey. Many Caribbean nations are well along in the process of becoming our next dependencies.

Whereas above I have basically recommended that AID be given increased freedom from Congressional interference, the matter at hand is definitely one that requires Congressional action. In 1957, an M.I.T. study team made a report to a special Senate committee that has served as the rationale for our foreign aid program since then. In essence, it said that the national interest would be best served by a professional foreign aid program to help developing countries achieve self-sufficiency. That is what AID was set up to do. That is what attracted some of our most outstanding and devoted people to work for AID. Before we abandon this goal to one of attempting to buy political allegiance with our aid program, the American people should be consulted, perhaps through a wide-ranging Congressional review of the matter. (As I will be pointing out in my book on the future of western development assistance, there are other reasons to undertake such a review.)

In the meantime, there are other ways the senior AID staff could attempt to maintain the integrity of its programs in support of promoting sustainable economic and social development. There is no reason AID has to try to program all monies promised by the Administration to a country. Specifically, the Administrator could determine how much aid could be effectively programmed for development and work only with that amount. Whatever is left over could be left for the State Department, the White House, the Treasury, or the Defense Department to disburse. By so doing, the Agency could at least partially maintain its image of attempting to help a country become self-sufficient. Of course, this will hardly guarantee that the recipient country will not become a dependent nation (witness the tragedy of Israel), but such a posture might allow AID to maintain and attract personnel of high professional caliber.

The Future

I now return to my project design assignment in which sustainable economic and social development is the goal. I will now look to the future; this is important, because the form of development assistance is in a process of change, and this has implications for the nature of the project design process. It is clear that we are moving out of the project-intensive mode of development assistance activities. This is being replaced by a concern for broader, longer-term objectives, such as institution building and policy dialogue. The need in these new aid activities will be less for manager-types and more for economists and other social scientists who have the stature to work with developing countries to effect these more basic changes. There are new sorts of issues that must be addressed in developing country planning. For example:

a. the microelectronics revolution. The computerization of jobs resulting from this revolution and the implications it has for the comparative advantage of low-cost labor countries are simply terrifying.

b. despite widespread concerns about environmental degradation, the next serious problem in agriculture are the surpluses resulting from heavy Western subsidies in support of their farmers. The implications of these subsidies for future developing country export markets are extremely grim.

c. Despite the tremendous investments donors are making in rural areas, people in developing countries continue to flock to the cities. This result, coupled with the lack of donor support for urban planning and infrastructure, means developing country cities will be human disaster areas in the very near future.

What are the project design implications of these sorts of issues? It is not at all clear, but it will take new approaches that allow for greater flexibility. As suggested above, we will need a new breed of professionals that are experts on such things as how to implement policy changes and how to build institutions. It will be a real challenge to find such people; they are in very short supply. In addition, there will be requirements for new types of sector professionals: for example, a new strategic planner cadre will be needed to chart country-specific courses in increasingly competitive international markets. Again, it will be a real challenge to find such people; they are in very short supply.

This change in emphasis will not require such a large AID infrastructure and in-country presence. It will require far less direction and concern for logistics than the current project-intensive mode. The approach should allow for greater uncertainty through greater flexibility. Meeting tight schedules in the delivery of inputs will be less important than offering sound advice and teaching people to think for themselves.

Congress can assist AID in carefully planning for this transition. The Agency should be supported in efforts to look beyond the next fiscal year in attempting to determine what the development challenges of the next decade will be. Further, major cutbacks and redeployment of AID personnel should not be initiated until alternative models for how AID might carry out its new responsibilities are carefully investigated.

Prepared Statement of Cornelia Butler Flora

While USAID has developed many strengths in recent years in project planning and evaluation, there are still a number of problem areas in the program process that interfere with the its optimal implementation. A number of these problem areas come from contradictions in our foreign assistance goals. Others stem from the structure of the Agency, particularly the reward structure for USAID personnel. Still others come from short implementation periods. I will deal briefly with each of these problem areas.

Contradictions in Foreign Assistance Goals

Foreign aid does not have a large or vocal constituency in this United States. Indeed, a series of polls of the American people show a decided inclination to cut aid, some because of a recongition that much of the foreign assistance budget is destined more for military than humanitarian ends, but most because they feel that we are giving handouts to ungrateful mendicants who are envious of our way of life but unwilling to work for it.

Response to this lack of constituency has been less toward educating the American people about the causes of underdevelopment and the nature of the development process (certainly areas of contention among academics) and more to creating constituencies with a vested interest in the aid process. These constituencies range from grain farmers, shipping companies, maritime unions, construction companies and Title XII universities.

That odd collection of institutions with a vested interest in very specific aspects of foreign assistance, coupled with the geopolitical and humanitarian goals of foreign assistance, which often do not complement each other, have led to enormous obstacles to systematic program delivery. A single example, but indicative of the pressures brought to bear to serve U.S. commercial interests before international development interests, is the complex and cumbersome procurement process now in place.

The attempt to please constituencies has led to the proliteration of constraints, functional accounts, and earmarking of funds that respond to the needs of specific U.S interests, and not the needs of the developing countries. Development situations that require maximum flexibility are now being imposed with maximum rigitity. While the evaluation process and experience has allowed tentative identification of the comparative advantage of a variety of delivery mechanism -- PVOs, universities, for-proft contractors, etc. in different environments, legislative mandates militate against responding to the situation specific needs of each country, and to the changing situtations caused by natural and political crises and trends.

The lack of legislative adaptation is represented by the presence of functional accounts. These serve to mobilize the U.S constituency groups, but tend to greatly decrease flexibility and country specific responsiveness.

Another set of earmarking that is particularly disadvantageous to African countries, which require both flexibility and long-term commitment is the division of funds into Development Assistance funds and Economic Support funds. The short terms political direction given to the Economic Support funds. Greater project flexibility as well as program continuity could be obtained by combining the two funds for African purposes. This could actually result in the U.S. having greater policy leverage, as we would then correctly be perceived as being more reliable than we currently are in delivering what we promise.

detracts from program continuity

Reward Structure for USAID Personnel

The reward structure in USAID tends to favor pushing large amounts of money for short term, easily measurable payoff, rather than carefully (and perhaps with curvilinear funding) program development. There is also a stress on originality, or following the current development line, rather than modifying current programs in light of the experience in the local setting. Thus the move for decentralization, while it should improve flexibility, may have a more than off-setting negative result of decreasing program continuity. There is a tendency for new AID mission directors to want to set up "their" program, which is generally noteworthy as being distinct from the previous director's program. The new program is generally responsive to what is perceived as the current Washington concern, often stemming from the U.S. Congress as well as USAID/W. A concrete example is the abrupt cutting off of funding of recurrent costs in a Sudan project, despite the explicit contractual obligation to continue them in a phased out manner. Such abrupt shifts result in the destruction of the project that might have had a chance for success (and thus "proving" the ill-advisedness of funding it in the first place), justifying the new Mission Director's decision to move on to something completely new and innovative in that setting. The constant movement from continent to continent, rather than a consistent reassignment after rotation to Washington, D.C., reinforces alot of discontinuity in programming and lack of ability to modify projects, rather than starting once again from zero. The desire to innovate often means a total recontracting scheme as well, bringing in a new contractor, presumably more efficient than the old one. Thus the new contractor, chosen by the new AID Mission Director, has the same disadvantage of lack of contextual experience and gets to repeat the sins of the previous contractor, rather than learning from them. Such "innovativeness" in bringing in new contractors also lends to unfortunate competitiveness and secrecy on the part of U.S. contractors (particularly private firms and universities), based less on who can do the best job ~~based on~~ past experience and more on who can prove they had nothing to do with what went on before.

The stress on moving the most money for the least cost results in a stress on large, capital intensive projects. The assumption in such cases is that capital is the scarce resource. Indeed, the scarce resource may be project management experience. It costs the same administratively to administer a small grant as a large one, a small loan as a large loan. Yet there is nothing else intrinsically efficient in moving large amounts of money rather than small ones. Congress must recognize that good programming is staff-intensive. Good programming often starts with a small test project and gradually expands, with continuity of program management from the funder. The pressure to move funds within a specific time period, responding to the fiscal needs of the Congress rather than the development needs of the country, result in project distortion and higher long term costs per person hour invested than do projects which start small, with intensive staff time, not just in planning but in early, experimental execution. The very accounting procedures militate against long term accountability in such cases.

In stressing the need for funding flexibility and working that flexbility into the reward structure, I have found that there have been more projects ruined by too much money than by too little. Problems of capital flow to projects ~~tend to come from being cut off too soon from a reliable~~ flow, rather than not getting enough at the beginning.

Another problem in the reward structure comes from the tendency to front load projects to the extent that the mission personnel involved in the Program Paper and the Project Identification Document are not around when the implementation takes place. These documents, which can be crucial for institutional memory, often are either ignored or over-adhered to. However, in the best of projects, they can serve as the basis from which to modify projects to make them more effective. In our evaluation of the impact of USAID on women, we found that the project that best identified women's role in agriculture -- which should have greatly influenced the sex ratio of trainees and the extension delivery system -- was ignored in project implementation. On the other hand, a project in which women were not identified as ~~a~~ key participants in the project design phase found that once the project got underway it was necessary for project success to modify the design to include women and women's groups as the primary project implementors. As a result, agricultural productivity was raised and soil conservation measures were implemented. The ability to be flexible and modify a project, rather than reject it out of hand once the original design proved ineffective needs to be reinforced.

Monitoring and evaluation have proven a vehicle for flexibility in many cases. This is particularly true when the goal has been to make the project better, rather than to simply ratify the desire by a Mission Director or someone else to either extend or terminate a project. The kind of feedback good evaluation gives, both to AID staff, contractors, and the national government helps bring about the flexibility and continuity good development activity requires. Not only are strengths and weakness identified, but areas of comparative advantage are identified. Feedback evaluation seems to be more important than an elaborate project design, because it allows for learning from the implementation process, as well as changing the project to meet the changing context. This flexibility, which assumes some continuity and chance to respond to feedback, has a great deal to do with whether a project is ultimately institutionalized in the country setting. Rewarding for continuity and modification, rather than simply innovation and criticism, could help facilitate this process already in place, making evaluation part of the process, rather than a potential end to it.

Short Implementation Periods

The current short project span, from 3 to 5 years, with decisions to terminate often made at the end of the third year on five year projects, greatly inhibit flexibilty and institutionalization. While there is something to be said for building a road or bridge as quickly as possible and then leaving, even in these cases, a follow-on maintenance training program might not be out of order. When the contractor as an institutional actor has the relatively permanent commitment to the national actor, either in the public or private sector, better development occurs.

Particularly in the African case, long term goals are necessary. The differences in soils, climates and cultures compared to the rest of the world mean that there is no simple technology that can be transferred or invented that will cause development to happen. The best that can be done -- and the best thing to do -- is to work with Africans to establish indigenous institutions that can identify crucial problem areas and develop appropriate solutions to them. Those solutions include institutional innovation, policy innovation, and technological innovation.

It then becomes important that both USAID and the contractors involved become committed to that institutional process. Those contractors involve U.S. private sector firms, PVOs, and U.S. universities, and, hopefully, creative combinations of those contractors. For contractors, it is easier devote their best resources if they know they are committing for the long term rather than a 2 to 5 year period. Both fiscally and personally this makes institutional sense. But the payoff for development of such long term AID commitment is the fact that the institutional commitment of the contractor often carries on far beyond the long-term contract. That has been Kansas State University's experience with Amadu Bello University in Nigeria. Institutional and personal ties have been established that have facilitated a constant interchange long after our AID financed involvement ceased. For example, although I have never worked in Nigeria, I had the pleasure of supervising the PhD dissertation of the head of the home economics extension unit connected with Amadu Bello. We worked together to assess the needs of rural women in northern Nigeria, based on the cultural situation and farming system in which they were located, in order to design a home economic program more in line with their needs than had previously been the case. The feedback to my institution is that we are now working with Paraguay, through our college of Human Ecology, to develop a women's extension training program there that will also more nearly meet the needs of rural women who engage in agricultural production as well as their home-maintenance chores. It is difficult to put a dollar amount on such multiplicative effects, especially where their impacts are so diverse. Nevertheless, without that long term institutional commitment, I feel I can state that both institutions would be weaker.

Part of long term commitment is the realization that in some setting, on some occasions, it is appropriate to pay recurrent costs over an extended period of time. The very precariousness of the African situation means that mission level flexibility, hopefully aided by decentralization, must take precedence over hard and fast rules. The goal of good evaluation and monitoring is to make sure that such flexibilty contributes to the long term development process, and not the short term goals of the Mission director.

Finally, long term commitment on both sides is facilitated when the long term contractor becomes part of the planning process. While that seems to limit competitiveness, it increases efficiency.

The current project to build institutional strength in agriculture in Africa is particularly noteworthy as a good long term program designed to meet the changing needs of African countries. It is being designed to build on past AID experience, not just as we all wish it had happened, but as it occurred. It allows for not only indentifying appropriate models, but the institutional context for such models to be effective. It is an excellent example of the use of social science tools to increase the efficiency and profit of biological and physical scientific endeavors.

Conclusions

It is easy in a time of fiscal austerity to engage in 'AID-bashing'. Development is sometime difficult to define and always difficult to implement. AID has learned alot about the process in the past ten years. Indeed, its evaluation series provides some of the best reading on applied development that I know of. However, because of the slipperyness of the process and the ambiguity of indicators of success (we mainly know when it hasn't happened) it is important that the legislative process be designed in a way that maximize flexibility and long-term continuity.

Prepared Statement of Anthony M. Schwarzwalder

Thank you, Madame Chairman. It's a pleasure for me to participate in these hearings. My 23 years of service in AID have included long-term overseas assignments in excess of 11 years in Jordan, Pakistan, Bangladesh and the Philippines, short-term assignment in more than 15 countries in all regions of the Third World and a variety of Washington assignments. For the past two years I have been associated with Management Sciences for Health, a non-profit organization working in the fields of health, family planning and nutrition in the Third World.

I'd like to comment upon AID's project design and implementation process from three perspectives: AID's internal systems, country-level concerns, and external factors.

Internal Systems

In general, AID's systems for project development, review and implementation are good. Much is said about an often cumbersome review and clearance process and the delays which result from it. Generalizations are difficult since, in fact, there are a variety of systems which, after adhering to the AID's general regulations, reflect the needs of a particular regional or central bureau, and the style and management values of its leadership. Differences among regional bureaus could include the level and extent of delegations to missions, and the respective roles played in the project review process by the technical offices, country desks and program office. One source of this criticism is members of AID's staff striving to improve performance and that's healthy. In any event, AID's record in terms of both the substance of projects undertaken and the time required to get them started appears to surpass that of most other multiand bilateral donor agencies. Many AID colleagues who joined The World Bank, for example, have remarked that the substance of meetings they attend at the Bank is similar to those held five years earlier in AID.

Often, increased delegation to field missions is seen as a way to accelerate the process. In the past several years steps have been taken in this regard with larger missions. Most notable has been an annual country-specific strategy review, which is intended to set broad policy and operational parameters for the missions and hence reduced AID Washington's involvement in the routine conduct of business. If senior Washington leadership at the regional bureau is committed to the concept and the USAID is adequately staffed to accept the challenge, this approach should make a positive contribution. However, one or both of these preconditions is often missing. From a field perspective the largest constraint is likely to be the size and technical skills of the staff relative to the tasks at hand. Too often I recall in the Philippines long delays between requests for and the arrival of Washington staff members whose skills augmented those of the mission. Thus, for missions with limited staff, increased delegation of authority may not be a significant step forward since the objective cannot be carried forward without timely TDY support from Washington. Frequently this doesn't happen, due to either limited travel funds or the inability to provide follow-up visits by the same people to a country who could make each TDY visit easier as country knowledge and contacts are developed. In the early days of the Bangladesh mission our program was developed using a model which included a minimal mission staff and intensive TDY help (approximately three people a day for six months). This model can be used to facilitate the evolution of authority to missions but it puts heavy burdens on the field staff. For example, we estimated that initial visits took close to 150 hours of staff support time while repeat visits dropped to around 20-30 hours.

Washington's commitment to the principle of delegation is often gauged by the life of project funding level below which a mission can authorize a project. This is set at $20 million for larger missions. Regrettably, this was frequently stymied by other procedures which might require AID/Washington approval. For example, the Philippines mission had the maximum allowable delegation of authority. On the other hand, the centralization in Washington of decisions regarding Project Development and Support Funds meant that AID/Washington approval of the scope of work was required to enter into a $7,000 contract to undertake the operations research necessary as a precondition to developing and analyzing a project. Ironically, the project was to support the decentralization of government decision-making in the Phillipines. The several months delay in obtaining Washington approval meant that the key individuals had accepted other work and the net effect was to delay the process by about five to six months. Thus, for decentralization to work, it must be comprehensively undertaken so as to not be derailed by cumbersome procedures for small but critical tasks.

Formal recognition that the development process is a slow and tedious one needs to be made both by the Congress and within AID's internal systems. This would result in authorizations of seven or more years being routinely granted for projects as is now the case on a selected basis. This is not only more consistent with reality but also will reduce the frequency of procedural oriented dialogues with host countries about compliance with an AID-imposed deadline. More frequent evaluations could then turn such discussions from procedure to substance.

Internal management systems are only as good as the people operating them. While the caliber of AID personnel is generally quite high, the system itself can obviate individual effectiveness. For example, field assignments of 5-6 years would greatly enhance an individual's ability to work within a country. It would also reduce the workload and budgetary costs associated with a two-year assignment cycle. For this to work effectively, mid-tour assignments would have to be held to a minimum and promotions geared more toward rewarding those who stayed with the development process rather than those who moved frequently for bureaucratic advantage. Severe hardship posts such as some Africa countries and those where terrorism is a significant way of life would need to be considered as exceptions.

Personnel reductions have meant that AID does not have the critical mass of technical skills in many areas which have historically permitted it to be at the forefront of new approaches to development. Thus, technical personnel spend much of their time managing contracts, which has limited long term professional interest. This is likely to result in an even further decline in the Agency's level of technical competence as people are not adequately challenged and leave. Attempts at maximizing the strengths that come from interdisciplinary approaches have been made through the establishment of Sector Councils. The next step might be the creation of a core staff of individuals from several technical disciplines, brought together in a long-term, team approach to critical problems such as Child Survival.

Recommendations:

-- Delegations of authority to missions should insure that the full range of necessary actions can be carried out, including timely and consistent TDY assistance from the same Washington staff.

- -- Routine authorizations should be granted for project funding of seven or more years.
- -- Field assignments should, in most cases, be for five years with greater rewards for people who accept such assignments and show development results.
- -- Imaginative approaches to the Agency's overall program needs and individual careers of its technical personnel should be considered. For example, interdisciplinary offices focussed on a specific technical problem could be created and more grant funds provided to support innovative approaches to new technical problems.

Country Level Concerns

There is a myriad of considerations which enter into the dialogue between missions and host governments relating to AID's efforts in project development, funding and implementation. One consideration is that from the perspective of the recipient, AID often seems to have a shifting set of policy concerns and program priorities.

In many countries today missions are financing activities with funds appropriated from both the Development Assistance (DA) and Economic Support Fund (ESF) accounts. Not long ago this was not permitted on the grounds that the objectives of the two accounts (ESF was then called Security Supporting Assistance) were incompatible. One was clearly political and targeted predominantly to short-term goals; the other was developmental and concentrated on long-term, less political objectives. The broad policy considerations underlying this change are in many cases understandable. However, their operational impact on a sustained development dialogue, often nurtured over years, may be underestimated or overlooked.

In the Philippines, for example, the ESF program was begun in 1979. It introduced a new funding source which had objectives and operational procedures completely different from the DA program, which was the cornerstone of our development relationship since the end of World War II. When it began, the ESF program was more than 50% greater than the DA program. Now it is roughly three times as large. The review process is similar for both yet the funding arrangements are quite different. For example, the costs of a DA project have been shared on roughly a 50/50 basis while ESF finances close to 100% of all project costs. Also, DA expenditures are reimbursable while dollars are transferred under ESF against anticipated local currency needs.

Attempts to introduce the same rigor and discipline to both ESF and DA programs are not likely to succeed because of their different reasons for existence. Thus, wherever ESF programs are offered in a more attractive, flexible basis and/or exceed the value of the DA program, it's only natural that political leaders and planners will be more interested in the ESF funds. In some circumstances, the DA program might suffer from serious neglect and the substantive directions of our relationship altered.

Over the years AID has embraced a number of perfectly valid approaches to helping attain certain developmental goals. However, they became ends unto themselves rather than means. Examples would include Title IX (increasing broad based participation), women in development, increased private sector involvement and policy dialogue. The challenge for development experts in the field is to determine which mix has the greatest chance of succeeding. For example, macro level policy dialogue, when undertaken on a bilateral basis, is likely to be difficult since in all but a few countries AID resources are less than 5-7% of all ODA. Well conceived projects designed to, among other things, influence policy makers by example may be much more effective. A private sector project may founder because it is viewed in some countries to be too ideologically motivated whereas one which has public sector efficiencies as its focus and concludes that privatization of certain sectors is desirable may obtain the same goals.

Recommendations:

-- Consideration should always be given to the impact on developmental goals and operational procedures of undertaking ESF and DA programs concurrently in the same country.

-- A commitment should be made to develop long-term program areas of concentration and specialization and stick with them.

-- Methods of contributing to development goals should not supplant the goals themselves in AID's hierarchy of priorities.

External Influences

AID project development is influenced by many forces over which it has limited control. They include the Congress, the press, special interest groups and other governmental agencies to name just a few. The discussion below will focus solely on the Congress.

The Congress exerts considerable influence on AID projects. Historically, Congress has been critical of AID and skeptical of its ability to show results. This is not without some basis, especially if the difficulties associated with conducting a program of this sort are around the world discounted. Further, because foreign aid has no strong constituencies, it becomes an easy target and likely recipient of bad press. Because of this, AID has become defensive, more reserved about initiating new programs and has frequently promised quick results to convince a doubting Congress about the wisdom of its proposals. Unfortunately, this has resulted in overselling particular ideas or approaches. An example would be the Basic Human Needs (BHN) initiatives which were the centerpiece of AID's programs in the early and mid 70s. A wide variety of development experts had concluded a new approach was needed and developed with AID personnel, the intellectual and operational framework for BHN. Without the kind of dialogue with Congress which could have established a broad-based understanding of the complexities of developing and implementing projects in this field, AID was forced to overpromise results -- all within a three year project cycle. Thus, missions were required to rapidly develop BHN projects often without adequate preparatory work and collegial discussion with host governments. Many BHN projects produced good results but in toto they were bound to fall short of Congressional expectations from the beginning and the entire approach fall out of favor in less than a decade. The private sector initiatives run the same risk. They too are likely to record many successes and an overall impression of disappointment because of the necessary tactic of oversell in order to secure Congressional support.

The extent of Congressional skepticism is best reflected in its requirement for formal notifications whenever there is even a slight deviation from the Congressional Presentation. This includes the intention to spend even 1% more than originally estimated or to fund a project similar to one originally proposed in the same program area. The nature of the planning process is that plans and estimates are made several years ahead of time against considerable uncertanities. Thus, a degree of precision seems to be required of the foreign aid program which is not expected of other governmental programs. The preparation of Congressional notifications requires considerable time (over 800 were sent to Congress last fiscal year) and causes a delay of up to 15 days each in the process. Congressional oversight is clearly appropriate but perhaps a procedure could be followed which would protect Congressional interests while reducing AID's staffing requirements and procedural delays. One option would be a quarterly or semi-annual report to Congress of changes which exceeded some reasonable guidelines.

Recommendations:

-- Establish a dialogue on development goals and priorities between the Executive and Legislature based on realistic understandings of AID's abilities and constraints.

-- Substitute for the all-encompassing requirement for Congressional notification a more reduced effort aimed at a quarterly or semi-annual review.

Prepared Statement of John W. Mellor

United States Foreign Assistance - What is the Comparative Advantage?

Introduction

I will argue below that: (1) agriculture is central to the development of low-income countries and the United States has a special capacity to assist that development; (2) that agriculture more than other sectors requires national level governmental structures for its development and that the United States is particularly well placed to help build those structures; (3) that these points are particularly relevant to Africa, in significant part because of the misdirection of past foreign assistance, particularly as compared to Asia; (4) that help is needed with respect to broad national policies as well as the specifics of projects and that these must be integrated into a well knit program (projects divorced from macro policy and macro policy divorced from projects are equally useless); (5) because there is so much to do and so few resources, tight programing priorities are needed (conversely the general failure in Africa is significantly due to foreign assistance donors in total spreading recipient countries resources so thin that nothing is accomplished).

The Centrality of Agriculture

Developing countries correctly want the relative importance of agriculture in their countries to decline. But, in development, as with so much else, it is best to start where you are - in agriculture - make it efficient and let nature take its course in gradually transforming the economy. Agricultural involves the bulk of producers in

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Testimony presented to the Senate Foreign Relations Committee hearings on the Agency for International Development. Dirksen Senate Office Building, April 24, 1986.

productive employment and determines the potential of consumers to attain adequate diets. It does the latter by affecting both nominal income from employment and real incomes through the price of food. We now understand the processes of demand and employment creation by which agricultural growth has large multipliers on growth in other sectors of the economy, thereby greatly increasing the effect of investment in agriculture in reaching broader societal goals of growth, employment creation, poverty alleviation and modernization. Those multipliers also explain what otherwise seems so strange - that on average developing countries that have done best in domestic agricultural growth have substantially increased their agricultural imports. Developing agriculture in poor countries where people spend much of their increased incomes on food is good for agricultural exporters. The United States is the country regarded as most successful in agriculture and the one to which developing countries turn for assistance in modernizing their agriculture.

Government Support to Agriculture

Governments are particularly important to agriculture because the small scale production unit which is most economical for farm production needs larger scale support of its production activities. Much of the support can come from the private sector - especially in marketing and input supply. But other activities, especially in developing countries, are unlikely to be provided by private firms - e.g. agricultural research, higher education, roads, rural electrification etc. Of course, local organization is required to raise local resources to develop the appropriate political pressures, and for proper administration. But most of these structures also require national level activity. The United States is particularly effective at assisting in building practical, effective national level structures (or state level in the case of larger countries) to support agricultural growth.

Asia Compared to Africa

U.S. foreign assistance to Asian countries in the 1950's and early 1960's emphasized building national capacities to service agriculture - agricultural universities, research systems, fertilizer distribution systems and so on. It is these institutions that build the basis for the green revolution. In Africa, we soon turned away from those approaches just when national governments were moving out of colonialism and most needed such assistance. The result was no base for agricultural development and weaker, less effective national governments.

Policy Needs

Effective policy for agricultural development requires opening the system to let markets do what they can do - getting prices right, freeing exchange rates, reducing government intrusion in things it does badly. But good macro policy needs information on details of implementation and it needs good sectoral and project policy. Those must be provided by trained people working in national institutions, constantly analyzing needs and providing policy makers alternatives and details. The U.S. can help immensely in that process by training people and helping to build the necessary institutions for using their talents.

Priorities

In Africa, the shortage of trained people and institutions requires tight priorities to foreign assistance. A few things need to be done well. And, the donors need to be coordinated to achieve this purpose. In Africa the priorities are: (1) developing capacities for policy analysis; (2) emphasis on food production and within that; (3) emphasis on agricultural research, fertilizer distribution systems and infrastructure. Above all is the need for trained people. For this the United States needs a strong foreign assistance agency to lead and to coordinate strong national institutions (e.g. agricultural colleges) to provide key inputs into the technical assistance process, and strong country missions to fine tune the policies to local needs.

Finally, let us not forget the opportunities in Asia and in Latin America to get the fast growers back on track and to give that final push to get the incipient fast growers onto that path. The benefits to the United States in trade and particularly in commercial agricultural exports will be immense.

REPUBLIKA NG PILIPINAS
MINISTRI NG PANANALAPI
MAYNILA

2 April 1986

Mr. Frederick W. Schieck
Director
U.S. Agency for International
Development
1680 Roxas Boulevard
Manila

Dear Mr. Schieck:

Questions have been raised in the newspapers with respect to the utilization by the former Government of the Philippines of Economic Support Fund (ESF) program assistance provided by the United States in December, 1984 ($47.5 million) and December, 1985 ($45.0 million). The particular issue is whether the Government of the Philippines can account for the peso equivalent of the total amount of $92.5 million provided, i.e., Pesos 1.79 billion. I would like to state the official position of my Government on the matter of accounting for these ESF-generated peso resources.

Our position is simply that the pesos can be accounted for. The Government of the Philippines has no problems with accounting for this assistance.

December 1984 ESF Disbursement

Let me recap briefly what has happened and what we plan to do. In December, 1984, the United States Government disbursed to the Treasury of the Government of the Philippines $47.5 million. The purpose of this assistance, which was provided in connection with the 1983 Memorandum of Agreement on the Philippines-U.S. Military Bases Agreement, was to support the balance of payments position of the Government. The $47.5 million thus became part of the foreign exchange reserves of the Government and as such were available, along with other dollar holdings of the Government, for foreign exchange purposes.

ISANG BANSA, ISANG DIWA, ISANG WIKA

Concurrent with this disbursement of dollars, the former Government provided an equivalent amount in Philippine pesos ("the counterpart") --Pesos 940.571 million, the use of which was subject to joint U.S.-Philippine programming. These pesos were initially placed in a special Philippine Treasury account, and then transferred to the General Fund of the Government.

By agreement between our governments, these pesos were to be spent on local costs associated with selected development projects of the World Bank, the Asian Development Bank and USAID during 1985. However, we have not yet spent all of the ESF-generated pesos because of delays in the releases of Cash Disbursement Ceiling (CDC) authorizations for government counterpart fund support of ESF-financed projects by the Office of Budget and Management (OBM) as a result of continuing revenue problems brought about by the prolonged economic contraction in the Philippines. Another reason for the slow utilization of ESF pesos is the slow implementation by concerned government agencies of ESF-funded projects due to unavoidable technical and administrative problems. Nevertheless, with USAID's permission, we will endeavor to use the unspent balance in 1986.

December 1985 ESF Disbursement

In December, 1985, the U.S. Government disbursed to the Treasury of the Government of the Philippines $45.0 million, again for balance of payments support. Again the dollars became part of the Government's foreign exchange resources. A special Treasury peso equivalent account was established for Pesos 853.785 million. These pesos are still in that special account. Because circumstances have changed, we will need to reagree on the use of these pesos before they can be released.

I have asked my staff to work with your staff to make whatever arrangements are necessary to allow us to spend the 1985 peso balance in 1986 and to free up the 1986 peso account for immediate use. Your attention to these matters would be appreciated.

Let me close with my personal assurance that the Government of the Philippines will continue to fully and faithfully account for the ESF peso proceeds.

Sincerely yours,

JAIME V. ONGPIN
Minister of Finance

Plan for Supporting Agricultural Research and Faculties of Agriculture in Africa

May 1985

Agency for International Development
Washington, D.C. 20523

May 15, 1985

Plan
for
Supporting Agricultural Research and Faculties of Agriculture
in
Africa

The proposed plan builds on several previous papers including:

- Africa Bureau Strategic Plan
- A.I.D. Policy Paper: Food and Agricultural Development
- Africa Bureau Food Sector Assistance Strategy Paper
- A.I.D. Sector Strategy for Agriculture
- Africa Bureau Agricultural Research Strategy Paper
- A.I.D. Priorities for Research in Agriculture
- Africa Bureau Strategic Plan for Agricultural Education and University Building (draft)

Executive Summary

Improved technology is necessary to achieve agricultural progress in Africa. However, the research task in Africa is especially challenging because the physical conditions for agricultural production are very difficult, labor is a constraining factor at critical periods during the year, and research on food commodities by African institutions is very recent and generally weak. This document sets forth a two-pronged approach to this problem:

- Strengthening agricultural research capabilities
- Strengthening faculties of agriculture

Agricultural technologies are usually location-specific and sensitive to agro-ecological and socio-economic environments of the farmers who use them. Even to borrow effectively, it is necessary to identify, screen, and interpret possible alternatives; borrowing requires some capacity to do research. A period of 20 to 25 years may be the minimum feasible planning horizon to achieve desired results, even in those countries which are highly committed to developing strong national research capabilities. In order to make most effective use of the Agency's scarce resources, this plan aims to:

a) Strengthen national agricultural research systems in approximately 8 core countries
b) Build strong applied research capacities in neighboring countries to enable local scientists to screen and borrow technologies and adapt them to local environments

Research networks -- which link national agricultural research systems with international agricultural research centers (IARCs), collaborative research support programs (CRSPs), and other research programs -- will serve as a means of both accelerating research payoff as well as strengthening national systems. The networks link a "critical mass" of scientists to work on aspects of problems which transcend national borders. Support will be given to research networks on four to six priority commodity areas in consultation with interested countries and IARCs.

Shortages of staff trained at the college and post-graduate levels are a major problem of national research systems. Participant training can supplement and reinforce efforts to develop national capabilities. However, the only long-term solution to Africa's severe shortage of trained agricultural personnel is to expand the capacity and improve the quality of national higher educational institutions. Under this plan, long-term assistance will be provided initially to four to six faculties of agriculture. These should be in the same countries where we are strengthening agricultural research systems. Our assistance will be purposefully designed to build linkages between the faculties of agriculture and other research institutions and programs.

In order to mobilize the vast range and amount of resources necessary for this large and long-range effort, the U.S. is facilitating the coordination of support to agricultural research in Africa as part of its participation in the Cooperation for Development in Africa (CDA), an organization of seven major members of the Organization for Economic Cooperation and Development (OECD). We further intend to work closely with multilateral donors, especially the World Bank with respect to university development. AID will seek means within CDA as well as other mechanisms to cooperate with other donors to strengthen agricultural research capabilities and faculties of agriculture in Africa.

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May 15, 1985

Plan for Supporting Agricultural Research and Faculties of Agriculture in Africa

Improved technology is necessary to accelerate agricultural and rural progress in Africa. The exceedingly high return from investment in agricultural research to develop new technologies -- the payoff from research -- is well-documented. Examples of high payoffs to research in Africa include cotton, oil palms in West Africa, and hybrid maize in Zimbabwe and Kenya.

This paper lays out a plan to strengthen the contribution of agricultural science and technology to achieve food self-reliance in Africa.*/ Emphasis will be given to strengthening:

- Agricultural research capabilities
- Faculties of agriculture

In order to make most effective use of Agency financial and human resources, criteria are needed to guide choices among countries and commodities to support. Twenty to 25 years of continuous support are required to build the research and human capital base to achieve desired results. Our effort will, therefore, draw on the resources of the entire Agency -- Missions, the Africa Bureau, and AID/W central bureaus -- working with African countries and other donors in a sustained, cooperative, focused program. National agricultural research systems will be strengthened in approximately 8 core countries. Strong adaptive research capacities will be built in neighboring countries to enable local scientists to screen and borrow technologies and adapt them to local environments. Networks will link national systems, international agricultural research centers (IARCs), regional research programs, collaborative research support programs (CRSPs), centrally-funded projects, and other-donor assistance on selected, high-priority topics. Four to six faculties of agriculture will be selected initially for long-term assistance.

Policy, credit, input supply, marketing, extension, and other support services also are important to agricultural progress. This plan, however, specifically addresses agricultural research and faculties of agriculture, and is presented to show what is needed to obtain technical breakthroughs in African agriculture. To translate this into production breakthroughs will require concomitant investments in infrastructure, input supply systems, marketing, and substantial policy reform. The other complementary development activities will be reviewed separately, taking into consideration the approach in this plan for research and faculties of agriculture.

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*/ Self-reliance in food is defined as the ability of a country to assure continuing food security to its population from a combination of domestic production, storage, and importation of food at commercial terms paid from foreign exchange earnings.

I. The Problem

Agriculture provides income and employment for over two-thirds of the population of Africa. Nearly all countries are dependent upon agriculture for the major part of foreign exchange earnings. Increased agricultural productivity is essential for raising government revenues and is necessary for improvements in nutrition, health, and the general quality of life.

The performance of African agriculture has been dismal; per capita food production has declined during the last two decades. Since 1960, growth in aggregate food production has averaged less than two per cent per annum. Yields per unit of land for food commodities are the lowest of any region in the world. The result has been growing dependence on food aid and increasing use of scarce foreign exchange for food imports rather than for other pressing development needs. A close examination of the African agricultural situation indicates that the causes of the poor performance include difficult physical and harsh climatic conditions; restrictive economic policies; weak institutions; critical shortage of scientists, teachers, and agricultural managers; and few farmer-tested high-yielding technologies.

Physical Environment and Climate While Africa has some highly fertile and productive areas, there are vast areas where growing conditions are unfavorable because of difficult physical and climatic conditions. The extension of agricultural production has often been accompanied by devegetation that has depleted soil fertility and reduced the water-holding capacity of the fragile African soils. The arid land of the Sahel and the soils of the coastal and central tropics of Africa present unusually difficult physical environments for agricultural production. Irrigation will be a long-term and then only partial answer to meeting Africa's food needs. The tropical soils of Africa present management problems that have not yet been properly addressed.

Government Policies Unfavorable economic policies have contributed to the present agricultural crisis in three key areas. First, trade and exchange policies have overprotected industry, held back agriculture, and absorbed too much administrative capacity. Second, many governments have created large state production and marketing and input supply organizations that are incapable of efficiently performing their assigned tasks. Finally, most African governments have not established an economic incentive structure for increasing agricultural production. Rather, price, tax, exchange rate, and investment policies reflect a consistent bias against agriculture.

Institutions The basic institutions required to step up agricultural production are weak in financial and manpower resources in most countries of sub-Saharan Africa. The colonial powers in Africa underinvested in human capital, food crop research, and internal transportation networks to strengthen internal market linkages for inputs or commodities. In the twenty-five years of independence, little progress has been made by African governments in correcting these past mistakes, in part due to lack of political commitment and lack of resources. Today most countries do not have adequate infrastructure to support a major expansion in agricultural development. Donors have also been short-sighted by focusing on discrete projects and by pursuing an on-again, off-again approach to supporting basic agricultural institutions.

Indigenous Scientific Capacity There is consistent evidence across the continent that there is not enough qualified human capital to carry out a sustainable agricultural development effort. Since independence, African governments have made little progress to improve the situation. Opportunities for professional growth are limited. Lack and underutilization of trained human capital, ranging from farmers to senior administrators and scientists, coupled with poor management of existing resources, are major factors in the present agricultural crisis.

Technologies Lack of productive research institutions in most African countries has resulted in a dearth of farmer-acceptable improved technologies needed to increase agricultural production and productivity. The expatriate-led export research capacity developed under colonial rule has deteriorated. With the single exception of maize, "African agriculture has probably been less affected by technology change in the past twenty years than agriculture on any other continent." (USDA: 1981)

II. Why Agricultural Research and Why Faculties of Agriculture?

The process of modernization or development is inevitably a process of de-agriculturalization. While the absolute size (in total GNP) of the agricultural production sector increases, other sectors (including agricultural support and processing industries) grow even faster so that the relative share of agriculture in GNP decreases. Thus, the U.S., which is the outstanding example of this process, moved from an economy in which practically the entire population was engaged in direct agricultural production to one in which less than two percent of the population is now engaged in that occupation -- while in the process, becoming the major agricultural exporter in the world. This transition was not achieved by neglecting agriculture; on the contrary, agriculture received substantial public support which enabled it to "finance" the development transition.

Research, initially largely supported by public funds, was a powerful contributor to the development transition in the U.S. Although the beginning of a formal public-supported agricultural research process dated to 1861, results in terms of increased yields did not begin to appear until the 1930s with the introduction of improved soil husbandry and the spread of hybrid corn. From then on, productivity increases have been the principal contributor to U.S. agricultural growth. As time has passed, privately-financed research has become an increasingly active contributor, complementing and, in some cases, replacing public research programs.

Much has been written about the failure of the Green Revolution to emerge in Africa. But recent studies have shown that agricultural technologies are usually location-specific and sensitive to agro-ecological and socio-economic nvironments of the farmers who use them. Africa's disappointing experience ith technology generation and transfer since independence adds further vidence to the historical record that "only a country that establishes its wn research capacity in agriculture can gain access to the advances in nowledge that are available to it from the global scientific community and mbody that knowledge in the technology suited to its own resource and ultural endowments." (Ruttan; 1984) When one asks "why put more money into gricultural research in Africa?", the clear answer is that strong support for gricultural research is necessary to promote African development.

National agricultural research institutions and programs in Africa vary in oth size and effectiveness; in general, however, they are weak and poorly taffed, equipped, financed, and managed. Most national agricultural research rograms in Africa are structured along disciplinary lines. Until recently, esearch was oriented toward export crops and animal health, with food crops nd animal husbandry largely neglected. The research programs concentrated on he physio-biological aspects of crop and livestock production with limited ttention to socio-economic aspects of African farming. Most of the research as been -- and, to a large degree, continues to be -- done in laboratories nd on experiment stations with few direct linkages with, or participation by, xtension service personnel or farmers. Linkages among national systems, nternational agricultural research centers, and other external sources of echnology are limited. These orientations are beginning to change, but much ore needs to be done.

Shortages of staff trained at the college and post-graduate levels are a ajor problem for national agricultural research systems. Participant raining may be a short-term answer and has an important longer-term role if sed to supplement and reinforce efforts to develop local capabilities. igher education capacity is increasing (about 10 per cent per year) but is till inadequate. The only long-term solution to Africa's severe shortage of rained agricultural personnel is to expand the capacity and improve the uality of higher agricultural educational institutions.

Universities in Africa have much in common. They generally are small nstitutions which concentrate on teaching. Entering students are poorly rounded in science and require extensive remediation which takes attention way from the regular curriculum. With few exceptions, little research is arried out at universities and the quality of research is low. Resources are carce and there is little opportunity for collegial interaction or peer eview. As yet, research activities in universities and government ministries re not closely linked. As a result, a scarce and valuable resource, the etter trained scientists who often locate at the universities, is nderutilized.

Efforts to achieve economies of scale through regional universities have onsistently failed. Each nation wants its own major institution, which is nderstandable in terms of national prestige considerations. But, in some ases, the broader objective of African agricultural development has been ll-served by this approach.

Support to agricultural research and to faculties of agriculture in selected countries will respond to the major problem areas inhibiting African agricultural development. Research will produce farmer-tested high yielding technologies adapted to the difficult physical and harsh climatic conditions. Sustained support to research systems and faculties of agriculture will promote stable productive institutions and improve the supply of trained scientists, teachers, and agricultural managers. Improved agricultural research systems and stronger faculties of agriculture, while not sufficient by themselves, are necessary for African agricultural progress.

III. Present Program

Agriculture is the central focus of AID's long-term development assistance strategy for Africa. Agricultural projects, in general, accounted for 47 percent of African Bureau obligations in FY 1984. Support to agricultural research and faculties of agriculture is a large part of this assistance.

A. Agricultural Research

AID uses a number of tools to support agricultural research in Africa including bilateral projects, regional projects, international agricultural research centers (IARCs), collaborative research support programs (CRSPs), and centrally-funded projects. The Agency currently funds almost $100 million of agricultural research in and on Africa annually.

1. Bilateral Projects

To improve agricultural research in Africa, AID works to strengthen national agricultural research capacities to generate and utilize technology. Included in a "national system" are all public and private institutions involved in conducting research to develop agricultural technologies. For FY 84, fifty five mission-funded projects located in 25 countries had agricultural research components. Annual expenditures for the research components are estimated at $51 million.

2. Regional Projects

AID supports regional projects promoting the sharing of research, the exchange of other types of information, and the cooperation of donors. For FY 84, eight regionally-funded agricultural projects had research components. Three of these are located in the Sahel, two are in the Southern zone, and three cover the whole continent. Annual expenditures for the research components are estimated at $22.4 million.

3. IARCs

International agricultural research centers (IARCs) -- the institutions supported by the Consultative Group for International Agricultural Research (CGIAR) plus associated centers funded by international donors outside the CGIAR -- provide a research system that works on most of the major food crops and animals, food policies, and improvement of national research systems. Four CGIAR-sponsored activities are located in Africa: the International Institute of Tropical Agriculture (IITA), the International Livestock Center for Africa (ILCA), the International Laboratory for Research on Animal Diseases (ILRAD), and the West African Rice Development Association (WARDA). A substation of the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) and associated centers, i.e., the International Center for Insect Physiology and Ecology (ICIPE) and the International Center for Research on AgroForestry (ICRAF), are also located in Africa. Other IARCs carry out research which applies to African problems and are linked to African national research systems. For FY 84, AID provided $45.3 million (approximately 25 percent of the total) for core support to the CGIAR-sponsored IARCs. Of this amount, approximately $14.4 million is estimated to be directly or indirectly supportive of African agriculture. In addition, AID provides $4 million annually to the International Fertilizer Development Center (IFDC), of which approximately $500,000 is directly or indirectly in support of agriculture in Africa.

4. CRSPs

Collaborative Research Support Programs (CRSPs) provide a means by which the talents of research scientists from the U.S. and developing countries can be mobilized to focus their collective efforts on solving long-term agricultural research problems of common interest. In FY 84, approximately $5.3 million of CRSP expenditures were directly or indirectly in support of agriculture in Africa -- sorghum and millet ($1.6 million), beans and cowpeas ($1.6), small ruminants ($0.8), tropical soils ($0.7), peanuts ($0.5), and aquaculture ($0.1).

5. Centrally-Funded Projects

By means of contracts and cooperative agreements, AID maintains and strengthens the technical competence of U.S. universities and other institutions in specialized areas so that the institutions, in turn, may better serve AID regional bureaus and missions by providing an array of expertise needed for high-priority tasks. For FY 84, 20 centrally-funded (S&T/AGR) projects provided direct or indirect support to agricultural research in Africa. Annual support was approximately $2 million in eight areas: crop production ($0.3 million), livestock production and health ($0.3 million), pest management ($0.1 million), post-harvest loss ($0.4 million), soil and water management ($0.3 million), bio-technology ($0.1 million), fisheries and aquaculture ($0.2 million), and economic policy and planning ($0.4 million).

B. Faculties of Agriculture

AID supports faculties of agriculture through participant training, bilateral projects, and CRSPs. The Agency funds approximately $20 million in support of faculties of agriculture in Africa annually.

1. Participant Training

AID currently provides approximately $6.8 million for long-term training for 250 additional Africans each year pursuing B.S., M.Sc., and Ph.D. degrees in the various disciplines of agricultural sciences. This represents an increase in numbers of trainees of almost 40 percent since 1979.

2. Bilateral Projects

For FY 1984, AID obligated $12.7 million for strengthening institutions involved in higher education in agriculture. Three institutions offering degrees in agriculture at the B.S. level and higher received $9.2 million (Cameroon, Uganda, and Zimbabwe). In addition, three post-secondary institutions offering technical training (including certificate and diploma levels) received $3.5 million (Kenya, Lesotho, and Liberia).

3. CRSPs

Several CRSPs are active in universities in several African countries. The degree training in the CRSP contributes to improved research capabilities and leadership at the national program levels.

IV. Discussion

For the past 15 years or more, AID and other donors have attempted to reverse the declining per capita food production in sub-Sahara Africa. The Agency has been investing in agricultural research capacity development by providing technical assistance, training, and other physical support to national research institutions. This support has been given to some 25 African nations addressing scores of different commodity and factor-specific research problems. However, these investments have been erratic and the results have been disappointing because they have not built adequate African agricultural research capacity nor have they generated the farmer-relevant technology needed.

The Africa and S&T Bureaus are rethinking approaches to technology and manpower development in Africa to improve the effectiveness of investments in agricultural research and faculties of agriculture. Our past experience in

Africa provides strong guidance for shaping future investments. The following broad points are crucial:

1. We need explicit objectives for agricultural research.
2. We need focused program priorities to emphasize selected countries, commodities, and problems.
3. We need to give greater support to commodity research.
4. We need to concentrate on food crop research, recognizing that food crop production can contribute significantly to income and export growth.
5. We need to improve the complementarity among AID's various mechanisms for undertaking investments in agricultural research and faculties of agriculture.
6. We need to make a long-term commitment toward the development of agricultural research and higher education.
7. We need to assist countries to develop their management and administration capabilities in research.
8. We need to be willing to finance a portion of recurrent costs of research programs and faculties of agriculture, where appropriate.
9. We need to cooperate with other donors in planning and carrying out these investments.

A. Need for Clear Objectives

AID's overall objective is to assist African countries to develop improved technologies for farmers which can increase agricultural production and incomes. Africa's nations differ substantially with regard to population, size, economic stability, commitment to agricultural development, institutional capacity, and a number of other factors that influence a nation's ability to benefit from donor assistance. Moreover, some countries are simply too small or too resource-poor to provide the base needed to develop and sustain full-fledged agricultural research systems. In recognition of this, AID intends to pursue a dual strategy. In those countries having the natural and economic base to develop basic and adaptive research, the Agency will make investments to build this capacity so that the technology generated can be used at home and transferred through networks to neighboring countries. In a second group of countries that lacks the economic resource base to develop and finance a large national agricultural research service, investments will be made to strengthen the manpower capacity of the research service to borrow technologies generated in other countries and research centers and to adapt the technologies to local needs and conditions. This basic division will be discussed below.

B. Need for Focused Program Priorities

To assure that AID's investments are in areas of high potential and payoff, a set of criteria has been developed to make sound decisions in allocating limited research resources.

1. Country Criteria (Technology Producing Countries)

At present, AID provides resources to strengthen national research institutions in about 25 countries. Project investments have supported a wide range of commodities, as well as provided a number of expatriate scientists. This broad-gauged support was considered necessary because of the weak scientific manpower base in most small countries, but the effect has been to fragment and reduce the impact of our agricultural development resources. So far, the payoff in terms of relevant technology has been disappointing.

Therefore focus will be given to a limited number of key countries with a high payoff potential for generating new technology. The technology producing countries would each meet the following criteria:

(1) Cultivated area of at least 100,000 hectares in each commodity for which research assistance is planned.

(2) A research staff of 100 or more scientists (it takes a minimum of 8 to 12 scientists to make progress on one commodity).

(3) Three or more functioning research stations located in the important agricultural areas of the country.

(4) A national research system pursuing prioritized commodity and problem solving research.

(5) A national research system having working relationships with IARCs, CRSPs, neighboring national programs, and regional programs.

(6) A national agricultural research budget that demonstrates a history of steady support and reasonable per-scientist funding.

(7) A faculty of agriculture with capacity to teach and do research, providing B.S.-level graduates qualified to pursue graduate study at universities in Africa or under the aegis of U.S. participant training programs and producing (or with potential to produce) M.Sc. graduates who have capacity to do research.

In countries that satisfy these criteria, AID will provide support for both technology generation and adaption/utilization. It will support faculties of agriculture in those countries where opportunities for training M.Sc.-level graduates exist.

2. Country Criteria (Technology Adapting Countries)

Countries with small national research programs will be provided assistance to strengthen their capacities to screen, borrow, and adapt technology from technology producing countries, regional networks, IARCs, and CRSPs. The Agency will make investments in technology adapting countries which meet the following criteria:

(1) Cultivated area for priority crops of about 100,000 hectares.

(2) An agricultural research staff of 20 to 80 scientists, which could be organized into commodity teams of eight to twelve professionals capable of adapting technology from the IARCs, CRSPs, and regional networks.

(3) Two or more operating research stations.

(4) A national research system willing to establish research priorities.

(5) A national research system interested in and willing to establish regularized working relationships with IARCs and other research institutions outside the country.

(6) National leadership that indicates a willingness to consider funding recurrent and operational costs of national research institutions and to provide reasonable per-scientist research support.

(7) A faculty of agriculture with some capacity to provide B.S.-level graduates to serve on research commodity teams and to qualify as participants for graduate training.

In countries meeting these criteria, AID will provide support for technology adaptation/utilization. If a specific national commodity research team requires a particular discipline (soil fertility or agronomy) to strengthen its capacity to borrow technology from a regional network, consideration would be given to providing the needed professional assistance. Participant training will be used to build the numbers and quality of trained researchers. Countries failing to meet these minimum criteria will receive limited assistance for agricultural research, primarily participant training.

3. Commodity and Problem Research Criteria

Any research allocation system, regardless of how intuitive or how formal, cannot avoid making judgments about two major questions. The first question is: what are the possibilities of producing scientific and technical advances if resources are allocated to research on a particular commodity, a particular resource problem, or a particular disciplinary or scientific field? The second question is: what will be the value to society of the new knowledge or the new technology if the research effort is successful? To help ensure that the Agency's research investments will have a technological and production impact, investments will be focused on a handful of key staple foods and related problems which are central to Africa's food needs. The criteria by which commodities and research problems will be selected include:

(1) The extent to which the commodity contributes to present and projected (taking into account future demand) calorie intake in rural and urban populations.

(2) The likelihood that improved farmer-relevant technology can be developed to increase production, given the expertise and state-of-the-art in the U.S. and the IARCs.

(3) The availability within the national research system of a minimum cadre of four M.Sc. or Ph.D. scientists backstopped by a staff of eight B.S. level specialists to work on priority research problems.

(4) The comparative advantage of the U.S. in making available knowledgeable scientists and relevant technology that can be incorporated into ongoing national research programs.

In general, AID intends to increase support to commodity research. However, the objective of this commodity research should be to develop higher yielding varieties based on management and input intensities appropriate to African circumstances. Besides increasing genetic potential, due attention must be given to economic and cultural problems such as labor availability and to disease and pest resistance, germination/maturation, soil and water management, and other matters that are particularly significant in the African setting.

There is general agreement that livestock production plays an important role in African agriculture. Livestock raising is carried out under mixed farming (crop/livestock) and range-type conditions. Interventions have characteristically been focused on range management, disease control, and improved nutrition. Lessons learned in the last 10 to 15 years of experience demonstrate that western range management approaches have been found ill-suited to the African context. Consequently, initiatives in livestock research should be promoted slowly and should focus on animal health and nutrition in mixed farming systems where animal traction and income generation through improved production are the central thrusts. In the absence of major animal diseases, nutritional stress is the major constraint to efficient livestock production. The solution to this problem lies in either increased fodder from food crops or improved grasses and forages.

C. Need for Commodity Research

The magnitude of food production increases required to meet Africa's overall population growth of about 3.5 percent annually suggests that some combination of a large number of marginal production improvements and a few major breakthroughs in staple foods are urgently needed.

The very promising new sorghum varieties in the Sudan and the prospects for biological control of mealy bugs and green spider mites (major cassava pests) are examples of extended, continuous research cooperation that are bearing their fruits now. A major technical breakthrough can only come about by improving the genetic characteristics of crops and knowledge of soil and water management relationships. Dramatic improvement in genetic materials and soil and water relationships requires a time frame of ten to fifteen years. In the short term, the outlook for many major technical breakthroughs is limited because of the long lead-time required to develop a sound research program. Hence, it appears that during the next five to ten years, food production increases must result primarily from marginal production improvements. These marginal improvements will most likely be achieved through improved agronomic practices and pest control.

Consequently, commodity research plans need to be focused on dual objectives: (a) a modest continued investment in the short-term to take advantage of whatever marginal production improvements can be generated and (b) major investment on genetic improvement and soil and water relationships for the long-term. A continued emphasis on marginal production improvements will help build the scientific knowledge base and provide opportunities for newly-trained scientists to gain practical experience, thus providing a base for the long-term emphasis on commodity work which will eventually lead to major technical breakthroughs. Major production breakthroughs are needed, eventually, to gain the required confidence of African governments and convince them that increased investments in agricultural research are justified over the long-term.

Farming systems research is not an end in itself, but rather a means of improving the overall technology generation and diffusion process contributing to production improvements. A knowledge gap exists between on-station commodity research work, the technology-transfer mechanisms, and the farmers as end-users of technology. Information on farming systems is needed in each commodity area to better understand the production system, the diversity and interrelationship of crops grown, the farmer's decision-making process, and potential areas where technological changes are most needed in the farming system. Farming systems research, by which we mean on-farm research with a farming systems perspective, offers a cost-effective means to fill this knowledge gap.

On-farm research should be aimed specifically at strengthening the on-station research being conducted by national institutions. Cost effectiveness is achieved by emphasizing a few priority enterprises, by bringing biological and socio-economic concepts together early in the research process, by implementing much of the research on farm, and by linking experimental station work and technology transfer activities to the research. Balance between commodity and farming systems research must be sought in any national research program.

There is general agreement that agro-forestry will play a role in agricultural development in most African nations. Agro-forestry has already been an accepted practice by farmers in many countries;

interventions include alley cropping, shelterbelts, random tree plantings, and tree border plots. AID assistance to agro-forestry research should support and complement research on the priority commodities using tree planting technology already developed at the IARCs for soil and water conservation. The priority commodity and agro-forestry work should be carried out at the farm level through national on-farm testing activities.

D. Need for the U.S. to Concentrate on Food Crops Research

Growth prospects for African agriculture depend ultimately on response to commercial opportunities. Nearly all farmers in Africa are engaged in some form of commercial agriculture. Farm families participate in commercial transactions through sale of food commodities, export crops, livestock, labor, and in other ways as well. Exports generate foreign exchange to import production inputs -- fertilizers, pesticides, and petrochemical fuels -- for food crop production. Sales of crops generate income to purchase food. Thus, there is a need to understand, at the national level and at the household level, how farm families participate in commercial transactions and how this influences food crop production.

The U.S. has a comparative advantage in food crop research. We have a base of knowledge about most of the major food crops grown in Africa and we also have the capacity for training scientists to research food commodities. Other donors, particularly the European countries and the IBRD, we believe, have a comparative advantage in providing technical assistance for research on many traditional African export crops (e.g., coffee, tea, and oil palm). Therefore, it seems appropriate over the next twenty to twenty five years for AID to focus on food crop research with the expectation that the private sector and other donors will also support food crop research as well as traditional export crop research. Such assistance should be coordinated to strengthen national research systems.

In suggesting this division of responsibility, several observations should be borne in mind. First, food crops can contribute significantly to cash sales, including exports. For example, many small farmers market part of their food crop production, and several of the surplus-producing southern Africa countries export maize to neighboring countries. Second, there are several ways, in addition to research, that AID can encourage commercial agriculture. For example, policy changes through exchange rate adjustments and improving efficiency of marketing parastatals can be powerful export stimulants. Third, private sector activity can be promoted. Firestone, Uniroyal, Del Monte, and United Brands, to name but a few, have research knowledge and capabilities of value for Africa in food and cash crops. Satellite farming -- agribusiness organizing small farmers to produce high-value cash crops by providing inputs, credit, technical advice, and, most importantly, a market -- shows considerable potential.

E. Need for Integrating AID Inputs

AID relies on bilateral projects, international agricultural research centers (IARCs), collaborative research support programs (CRSPs), and regionally and centrally-funded projects to provide its support. Each mechanism has strengths and weaknesses, and the relative advantages and disadvantages of these mechanisms are continually evolving.

The bulk of Africa Bureau funding for research is provided through bilateral projects, mostly implemented by Title XII institutions. Bilateral projects enable AID to respond directly to host country needs and give the on-the-ground presence required for sound institution-building. During the past decade, U.S. universities have made progress in developing cadres of scientists knowledgeable about agriculture and working conditions in Africa and about AID operations. They have a comparative advantage in (1) education and training of research personnel and (2) institution building. They provide the major means of training Ph.D. level researchers for Africa at present. However, the effectiveness of this mechanism is reduced by (a) the generally short duration of projects; (b) frequent contractor staff turnover; (c) difficulty in obtaining fully-qualified staff including deficiencies in French language capability; and (d) tendency for project formats to distort and/or fragment host country research programs.

IARCs provide access to worldwide stores of germplasm, to a small but very significant group of international agricultural scientists whose collective LDC experience is invaluable, and to specialized non-degree training. They have a comparative advantage in (1) technical backstopping with long-term field staff, (2) on-the-ground network coordination, and (3) linkages with other international centers. But the IARCs tend to give attention to elite as opposed to local breeding materials and focus on input and management-intensive yield improvement rather than on labor-conserving technologies and other desirable plant qualities.

CRSPs focus on research with a long-term payoff and provide access to high-level expertise and training. However, integration into national programs and coordination with bilateral projects and IARCs could be improved.

Regionally and centrally-funded projects provide access to specialized technical skills and help develop U.S. institutional capacity. However, it is sometimes difficult to coordinate the use of these resources when financed by different AID/W offices, and, as a result, confusion can exist among host country counterparts and contractors regarding roles, responsibilities, and program directions.

All these mechanisms provide resources that are important to African agricultural research and development. The effectiveness with which these resources are deployed should be improved by refining and adjusting their roles in an evolutionary way based upon the lessons of experience. AID intends to:

-- Improve coordination in the delivery of assistance -- by giving increased support to the development of coherent, balanced, long-term national research plans into which diverse inputs can be fitted and by ensuring clear program direction for regionally-funded and centrally funded projects;

-- Improve the quality of Title XII participation by giving sustained and stable support to four to six U.S. institutions that are best placed to support our commodity and country priorities, thus enabling the institutions to develop their technical staff, managerial capacity, and base of knowledge of African agriculture needed to effectively implement bilateral projects;

-- Expand the capacity of the IARCs to support national program development by establishing and funding special projects -- especially where these projects incorporate a regional networking component; and

-- Improve the integration of CRSPs into the national and university research programs in Africa.

F. Need for Long-Term Commitment

There is now substantial empirical evidence that agricultural development in Africa is a slow, evolutionary, stepwise process. Similarly, agricultural research is a long-term process that should be conceptualized in time spans of decades rather than years because:

- Even if major efforts are initated now, it will take a minimum of 20 to 25 years, depending on the country, to train and upgrade an adequate level of human capital for the major agricultural institutions.

- It takes an average of 10 years between the initiation of expenditures on agricultural research and the availability of new technology and another 5 to 10 years to gain widespread adoption.

- It will probably take a period of 5 to 10 years in most countries to build the political support for a fundamental redirection in development strategies to give increased financial support to agriculture.

A long-term commitment must also be made to U.S. institutions to enable them to participate more effectively in an effort to strengthen agricultural research and faculties of agriculture in Africa. This would enable the U.S. institutions to hire additional permanent faculty for the particular purpose of interacting professionally with selected African institutions in such a way that the interaction is compatible with, in fact is supportive of, the U.S. academic incentive system.

Long-term commitments to research, training, and donor relationships are mutually reinforcing. AID should begin planning now for a sustained commitment of a minimum of 20 to 25 years to African agricultural research systems and faculties of agriculture in key countries where the potential for technological payoff is high. Once a long-term commitment is made to a country, AID should not act precipitously to terminate that support for short-term political or other reasons.

G. Need for Stronger Management and Administration Capabilities

In most African countries there must be significant improvement in the management and administration of agricultural research programs so that national systems can handle increased levels of support and so they can improve the effectiveness with which funds and staffs are utilized. Evaluations of our current generation of agricultural research activities indicate that poor management and administration are frequently constraining the available technical talent. Although specific country and organizational needs will vary considerably, strategies to improve management and administration will need to be built upon some combination of the following interventions: upgrading the managerial capacity of key individuals; improving the financial planning and budgeting process to align financial resources with research objectives; setting in place cost-effective systems to evaluate effectiveness of research expenditures; improving personnel management systems, performance incentives, and career paths to retain and make the best use of scarce staff; and making managers and scientists accountable for results or lack thereof.

In addition, explicit attention must be given to establishing reliable relationships between research organizations and other organizations upon which they depend (e.g., Finance Ministries, Planning Ministries, and Civil Service Commissions) as well as to establishing sound avenues for the exchange of information with groups they are expected to serve (extension workers and farmers). This is a broad but indispensable agenda that must be pursued in AID projects to build a technology development or adaptation capacity in African nations.

H. Need for Financing Recurrent Costs

Renewed attention to management and administration will go some way towards addressing the troublesome issue of recurrent funding by making better use of existing resources. But in the future agricultural research activities should explicitly tackle the recurrent cost issue by (a) ensuring that host countries are placing adequate priority on funding for agricultural research organizations; (b) taking advantage of opportunities to generate revenues (e.g., through user-fees or contributions in labor or in-kind); and (c) exploring opportunities to contract out ancillary support activities (e.g., maintenance of facilities) that might be done more efficiently by the private sector.

However, missions should be prepared to finance the recurrent budget of essential agricultural research activities provided that there is (a) an acceptable set of country policies (or movement toward these) so that the effectiveness of recurrent support is not in doubt; (b) an assurance that recurrent cost support has higher development impact than new investments; and (c) a clear inability of the host country to undertake recurrent cost financing. Even so, recurrent cost financing must be provided in the context of a carefully phased plan to shift the entire burden to the host country over a period of time not to exceed ten years. AID's Policy Paper on Recurrent Costs provides guidance on this complex area.

I. Need for Donor Cooperation

With many donors working in Africa, duplication of effort is a serious problem. If donors meet prior to project planning, conflicts of interest and duplication of effort can be minimized. Also, donors can work together and share costs in order to allocate sufficient donor resources to large-scale problems. For example, a logical division of resources would be for the U.S. to use its grant funds for technical assistance and training to complement financing from other donors for buildings, other infrastructure, and equipment. Similarly, the U.S. might direct support to research on food crops to complement research assistance on traditional export crops by European donors or the private sector. Special initiatives should be undertaken by AID missions to work with and strengthen collaborative efforts among countries. The responsibility to nurture regional collaboration is of primary importance to ensure that the contributions of IARCs, CRSPs, and centrally- and regionally-funded activities are fully utilized in achieving Agency agricultural development objectives. Donor coordination can help prevent the fragmentation of national programs that results when diverse projects are put in place without considering redundance and complementarities.

Cooperation for Development in Africa (CDA) -- an informal association of the seven major bilateral donors to Africa who provide 65 per cent of direct development assistance -- represents one organized effort of donors to cooperate. Within CDA, AID, the largest donor to agricultural research systems, serves as overall coordinator of assistance in agricultural research. AID and the World Bank have agreed to cooperate in exploring development of faculties of agriculture in Africa. AID is supporting World Bank initiatives to promote IARC-led commodity networks in Africa. AID also works through World Bank Consultative Group meetings, UNDP Round Table meetings, and other opportunities.

AID believes that, in the last analysis, donor cooperation will only be successful when host country governments take the lead in establishing coherent programs into which donor resources may be placed. Hence, AID will work with African colleagues and counterparts to establish strong national research strategies or plans and seek to use them as the framework for coordinating donor assistance to research and faculties of agriculture.

V. Program Plan

AID support in Africa for agricultural research and faculties of agriculture should adhere to five guiding principles, which are key to effective agricultural technology development in Africa.

1. Explicit Program Objectives and Priorities We will focus the bulk of our resources on a relatively limited set of countries, commodities, and research problems (particularly on soil and water relationships to the key commodities) where sustained assistance is most likely to achieve high payoff in producing new technology and income streams for producers.

2 Balanced and Integrated Commodity and Socio-Economic Research We will give increased attention to the development of strong commodity research programs, while refining the role of farming systems research to ensure that on-station research programs respond to the real concerns of African farmers. This includes renewed attention to the problems and potentials of commercialization of agriculture and to labor availability and utilization.

3. Sustained and Stable Support for U.S. and International Institutions We will increase the capacity of several lead Title XII institutions to support Agency country, commodity, and problem priorities. We will also encourage and assist IARCs to establish a stronger presence in the development of African national research systems as well as regional commodity networks.

4. Long-Term Commitment We will adopt a period of 20 to 25 years as the minimal acceptable planning period for assistance to African agricultural research systems and faculties of agriculture as well as our support for the U.S. and international institutions upon whose expertise we depend.

5. Donor Cooperation We will continue to facilitate donor cooperation in African agricultural research and faculties of agriculture. Our efforts will have two emphases: effective collaboration among donors and development of long-term national agricultural research strategies or programs into which diverse donor resources can be effectively placed.

A. Agricultural Research

Strengthening agricultural research capabilities will be based on a two-pronged approach to national agricultural research systems and zonal research networks.

1. National Research Systems

The dual task of capacity building and technology development will be addressed in two distinct ways depending upon the potential for payoff.

a. Technology Producing Countries

A few countries already have relatively strong bases in the areas of manpower, financial resources, area planted in priority food crops, and other-donor support. The following countries are top priority where agricultural research can be expected to have the largest potential and earliest payoff for development: Cameroon, Kenya, Malawi, Senegal, Sudan, Zaire, Zambia, and Zimbabwe. While still meeting the criteria for technology producing potential, the following countries should receive lower priority due to relative economic, social, and political considerations: Tanzania, Uganda, Ghana, Ivory Coast, and Nigeria. In order to benefit from active networking, at least one technology producing country should be located in each CDA-designated ecological zone. The proposed match is as follows: Sahel - Senegal; Coastal West Africa - Cameroon; Sudan - Sudan; East Africa - Kenya and Malawi; Zaire Basin - Zaire; and Southern Africa - Zambia and Zimbabwe. Missions in these eight countries are encouraged to assist the countries in developing strong national food crop research programs.

Within these programs, the short-term objectives will be to train scientists, build institutional capacities, and operationalize zonal networks to produce improved technologies. Agency investments will focus on two to four food crops that are predominant in the zone in which the country is located and which meet priority commodity criteria.

The long-term objective will be to produce improved technologies on a sustained basis. This will require several components. Each national system should develop sound management plans and long-term research agendas. Collaborative zonal networks will help to make research more cost-effective, reduce country-by-country duplication of effort, and improve testing and dissemination among scientists of research information. M.Sc. and Ph.D. participant training programs should take into account the scientific manpower needs of the selected country as well as the broader manpower requirements of the zone. In those countries where opportunities exist, AID will support development of faculties of agriculture to train M.Sc. scientists in specific disciplines needed to meet the commodity research objectives of the country and, to the extent possible, zone.

b. Technology Adapting Countries

The technology adapting countries generally need assistance to strengthen their capacities to import technology and adapt it to local micro-environments. The technology adapting countries tend to group into two categories. The countries with natural and human resources approaching minimal research requirements include Burundi, Madagascar, Mali, Togo, Sierra Leone, Liberia, Niger, Rwanda, Burkina Faso, The Gambia, Botswana, Lesotho, and Swaziland. In a second category of relatively less promising countries are Chad, Benin, Somalia, Mauritania, Guinea, Guinea Bissau, Central African Republic, Cape Verde, and Djibouti. Within each category, the countries are not listed in any order of priority. There is a presumption in favor of program and project assistance to the first group of technology adapting countries where it is feasible to consider long-term commitments to agricultural institutions. For the time being, our assistance to the second group of technology adapting countries will concentrate primarily on participant training.

Within these programs, the short-term objective will be to concentrate on building multi-disciplinary teams of 8 to 12 scientists who will develop commodity research programs in one or two staple foods. The commodities to be researched will be the predominant food crops in the particular ecological zones, e.g., sorghum, millet, and edible legumes in arid and semi-arid regions, maize in the eastern and southern zones, upland rice in the western coastal zones, and roots and tubers in the humid zones. Participant training initially will be focused on increasing the numbers of M.Sc. level scientists. Training graduate-level scientists at neighboring faculties of agriculture will be encouraged at the M.Sc. level, but Ph.D. training will be supported in the U.S. for the next 10 to 15 years. Little, if any, investments will be made to develop faculties of agriculture in the technology adapting countries.

The long-term objective will be to build minimum-size national research institutions capable of planning and managing at least two to three commodity programs. Attention will be given to cost-effective management to promote technology transfer through the research networks. A research institution in an adaptive research country may have special capacities to conduct research in particular areas, e.g., biological nitrogen fixation, as well as to screen plant materials for disease or pest resistance in collaboration with IARCs, CRSPs, or centrally-funded projects. M.Sc. participant training will be phased out as rapidly as possible in the U.S. as African faculties of agriculture expand their capacity to offer relevant, stable, and cost-effective training.

c. Commodity and Problem Research Priorities

Commodity and problem priorities are determined by the crops most important in the caloric intake of the rural and urban population, land area sown to particular crops, and current and prospective demand for the food crop in each respective ecological zone. The following commodities have highest priority for Africa: maize, sorghum, millet, upland rice, roots and tubers (cassava and potatoes), and edible legumes (beans and cowpeas). Relative importance would differ by ecological zones. Forages and trees are considered important in mixed farming situations, i.e., mixed food crop and livestock farming and agro-forestry. AID will not provide support for research on other crops (e.g., groundnuts, soybeans, horticultural crops) that are important in some local circumstances but which are relatively unimportant in terms of Africa's overall food needs.

2. Research Networks

Because of the large number of small countries in Africa, it is not cost-effective to approach agricultural research problems entirely on a country-by-country basis. Most of the national agricultural research systems in small countries are thinly-staffed and poorly-financed. Agricultural research is costly. A "critical mass" of scientists is needed to produce new knowledge through basic and applied research. In many cases they are not always available at the national level. It is, however, possible to build a critical mass of scientists through the collective joining of scientific manpower in the small countries and focusing their work on a specific problem. Problems that transcend national borders or even regional groupings often may be addressed more effectively by institutions that are interregional or global in nature. These instituitions, in turn, can provide support for national programs in specific program areas.

AID will facilitate agricultural research cooperation on a zonal basis to complement national research efforts. The major national research institutions producing new technologies will be encouraged to help implement collaborative networks with other national research systems and regional and international research centers. These collaborative networks will be inter-country working relationships facilitating the planning and coordination of research and the backstopping of national programs. In most instances, the IARCs will take a leadership role in development of networks. In some cases, it may be necessary to support small African regional institutions to coordinate with IARCs to lead network development. Over time, strong African national agricultural research systems must assume leadership roles in these scientific networks.

The development of networks in sub-Saharan Africa will plan strategic components of research to solve problems, foster the exchange of scientific knowledge, and facilitate cost-effectiveness; they will not be means for building large operational staffs or physical facilities. Several topics are especially promising for collaborative networks. On-farm research with a farming systems perspective is one of these. In addition, we plan to support, initially, four to six commodity networks, each in one or more zones. The following appear to have highest potential:

- Maize - Eastern Highlands, Western Coastal, Zaire Basin, and Southern Zones

- Sorghum and Millet -- Southern, Sahelian, Sudanian, and Eastern Highlands Zones
- Roots and Tubers -- Zaire Basin and Western Coastal Zones
- Edible Legumes (particularly beans and cowpeas) -- Eastern Highlands, Western Coastal, and Sahelian Zones
- Upland Rice -- Western Coastal Zone and Madagascar
- Forages in Mixed Farming Systems -- Sahelian, Sudanian, Eastern Highlands, and Southern Zones.

B. Faculties of Agriculture

We propose to improve the quality and increase the numbers of trained scientists to carry out research by supporting faculties of agriculture in four to six technology producing countries. The focus will be upon university building in higher agricultural education at graduate degree levels through the provision of support to university research, teaching, and linkages to agricultural production. Concentration will be upon agricultural sciences, other sciences related to agricultural production, agricultural and rural social sciences, food utilization, and university administration and management.

The ultimate objectives of support to higher agricultural education are twofold: first, to develop institutions of higher education and research that are responsive to commodity research priorities and agricultural production problems; and second, to produce a critical mass of well-trained, practically-oriented scientists willing and equipped to work on high-priority commodities and research problems.

Types and amounts of support will vary from institution to institution depending on their relative levels of development and areas of expertise and may include staff development and long-term training; classroom, laboratory, and dormitory facilities; curriculum and administrative development; research support; library development; support for networking with other professionals; and linkages to agricultural production. This will require a minimum of a 20 to 25 year commitment of support for each institution.

The following criteria will be considered in selecting faculties of agriculture:

a) Relative institutional strength in terms of quality of education offered;

b) Institutional recognition of the need for links among research, teaching, and agricultural production;

c) National budgetary support with a demonstrated history of steady support and reasonable per-faculty funding;

d) Potential for collaborating with and supplementing national agricultural research services and independent research institutes;

e) Potential for playing a leadership role in the country and region and a national policy which supports it.

The focus on faculties of agriculture is complementary to agricultural research and therefore the criteria also should take into consideration an attempt to strengthen at least one faculty of agriculture in each ecological zone; the zonal priorities for commodity and problem research; and the potential of selected faculties of agriculture to establish themselves to prepare professional resources to serve research needs at both national and regional levels, e.g., if maize research has been identified as a priority in Southern Africa, an AID-funded training institution in that region should provide professional support to such research.

Disciplinary priorities will be identified to support the commodity and problem priorities identified for each institution as well as the teaching function and agricultural production linkages of the university. Specific departments and units to be strengthened in each institution will vary from country to country. However, the following criteria will be applied in determining priorities upon which to focus support:

a) Priority attention will be given to development of those departments in scientific agricultural fields which most clearly meet the commodity and problem priorities identified for the institution, e.g., agronomy, soil science, plant pathology.

b) Choice of content focus will also be aimed at strengthening the institution's capability to conduct research and link that research to the agricultural production systems of the country and the region. Therefore, such departments as statistics and computer science may require strengthening in order to support viable research efforts while departments such as agricultural economics, rural sociology, and rural education may require strengthening to ensure linkage to agricultural production and farming systems research.

C. AID Funding Levels

Funding requirements for the plan to support agricultural research and faculties of agriculture in Africa can be separated into four components: (1) national agricultural research systems and zonal research networks; (2) faculties of agriculture; (3) IARCs, CRSPs, and other centrally-funded projects; and (4) a small set of U.S. Title XII institutions.

AID's experience in supporting national research systems and regional research networks in Africa provides some guidance in determining the funding requirements for these components, at least with respect to the Africa Bureau's and the S&T Bureau's roles in providing technical assistance, training, and essential equipment and commodities. For national programs, we plan to commit $50-75 million annually and $800 million over the next 15-year period. Of this amount, a relatively large proportion will be spent on (a) major efforts to establish a technology producing capacity in a handful of countries where this is warranted; and (b) major efforts to establish a technology adapting capacity in a handful of promising countries that are currently without such capacity. In other countries (the majority of cases), lesser amounts will be spent on training or making improvements to existing capacities to produce and/or adapt agricultural technology. For the zonal networks, we plan to commit $2-3 million per year for each of five networks, for a total of $10 to $15 million annually and $200 million over the 15-year period. In sum, a commitment of $60 to $90 million annually and $1 billion over the next 15-year period is planned for these two components. For the most part, these funds will be found through reallocations of resources.

About $20 million annually, or $300 million over the next 15-year period, will be provided to support the work of the IARCs, CRSPs, and other centrally-funded projects in Africa.

The anticipated cost of developing the faculties of agriculture in four to six countries is approximately $30 million per institution for the first 5 years with decreased support for the next 15 years or a total of $25 to $35 million annually for all the faculties over the first 5 years and perhaps $10 to $15 million annually over the remaining period or a total of $250 million over the 15-year period.

We do not have estimates yet of support to Title XII institutions.

We emphasize that these estimates are by no means the total resource requirements of research and faculties of agriculture in Africa. For example, we have not completely estimated the costs of participant training in the U.S. or more than the most minimal research investments in the moderate-to-low potential countries and lower priority commodities and problems. This underlines the importance of achieving major improvements in donor cooperation and the urgency of improving host country capacities to formulate and adhere to strong national research objectives and priorities.

D. Implementation of This Plan

This plan clearly implies some degree of restructuring of our assistance to African agricultural research. This restructuring is to be achieved in an evolutionary way, in the ordinary course of program and project development. For ongoing activities, the provisions of the plan will be incorporated into the scopes of work of teams undertaking mid-term evaluations and developing second-phase projects. Such evaluations will then be done with an eye toward the priorities developed in the plan. For new starts, the provisions of this plan will be factored into reviews of CDSSs and ABSs. This will ensure that programs and projects that are congruent with plan priorities receive appropriate support in the process of Africa Bureau and S&T Bureau resource allocation, and it will also ensure that inconsistent proposals are identified early at a time when differences of emphasis can still be effectively reconciled.

AID's policy paper on Institutional Development states that projects of this type may be authorized for ten years. This has important implications for the development of African capacities to undertake agricultural research and to improve faculties of agriculture because long-term commitments of this sort will engender fully supportive responses on the part of host country administrators and will call forth equally supportive responses from the U.S. Title XII community and other involved institutions. Thus there is a presumption in favor of ten-year authorizations for future AID assistance to Africa in the areas of agricultural research and faculty development.

VI. The Bottom Line: Food Self-Reliance

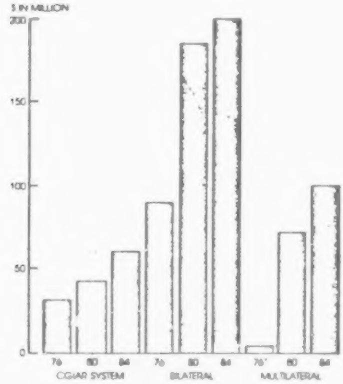
The ultimate objectives of U.S. assistance in food and agriculture are to enable African countries to become self-reliant in food, assure food security, and achieve economic growth.

There is no certainty that these objectives can be achieved by African countries. However, there is certainty that the objective will not be achieved unless fundamental efforts are initiated now.

Technology alone cannot do the entire job. Institutional innovations, policy supports, and infrastructure investments must occur if agriculture is to develop and benefits are to spread widely among rural populations. However, without improved agricultural technologies, resulting from research, few development programs will move very far or have lasting effect.

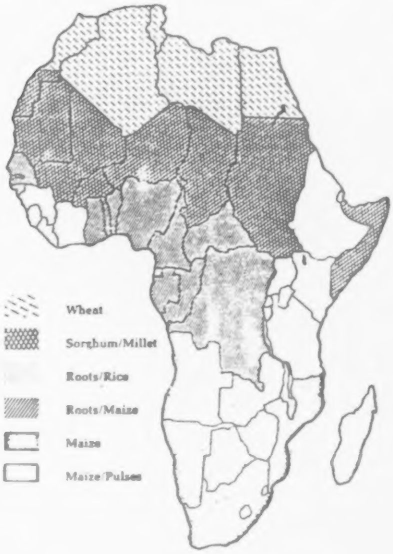
Annex A.

AFRICAN RESEARCH FUNDING



*1976 multilateral data incomplete
1984 bars are estimates based on partial 1984 reporting
Sources: World Bank, IFPRI, CGIAR

MAJOR CROP ZONES



Major Crop Zones and Supporting Data

Key	Food Crop Zone	Predominant Agroclimatic Condition and Geographical Location	Total Population (millions)	Total Agricultural Population (millions)	Agricultural Population Density per ha of Cultivated Area	Average Yield of Primary Cereals (kg/ha)	Number of Food Emergency Countries in Total Countries for Each Region
⋰	Wheat	Mediterranean Winter Rainfall	95.91	45.24	1.77	1219	1 of 5
▩	Sorghum/Millet	Semi-Arid Tropics—Sahelian Belt	141.08	88.88	1.42	544	9 of 11
	Roots/Rice	Humid Tropical—Coastal West Plus Madagascar	29.84	22.92	2.07	1416	5 of 7
▨	Roots/Maize	Humid Tropical—Equatorial Lowland	81.29	53.14	1.82	692	5 of 11
▭	Maize	Sub-Humid Tropics—Central and Southern	24.11	16.26	1.43	1187	2 of 7
☐	Maize/Pulses	Modified Tropical—Equatorial Highlands	93.48	74.00	2.49	1585	6 of 8

March 1985

Sources of Data: World Bank, IFPRI, FAO and IADS. 1982 or latest available data.

Source: News from CGIAR, Volume 5, Number 1, March 1985

Annex B.

Production of Major Crops

Crop[a]	Average annual volume (thousands of metric tons)			Average annual change in volume (percent)[b]		
	1969–71	1977–79	1980–82	1969–71 to 1977–79	1977–79 to 1980–82	1969–71 to 1980–82
Cereals						
Maize						
Sub-Saharan Africa	12,132	13,438	13,774	1.3	0.8	1.2
Oil exporters	1,691	1,814	1,904	0.9	1.6	1.1
Other countries	10,441	11,624	11,870	1.4	0.7	1.2
Millet						
Sub-Saharan Africa	8,875	9,178	9,615	0.4	1.6	0.7
Oil exporters	2,870	3,083	3,299	0.9	2.3	1.3
Other countries	6,005	6,095	6,316	0.2	1.2	0.5
Rice (paddy)						
Sub-Saharan Africa	4,735	5,936	6,248	2.9	1.7	2.5
Oil exporters	380	856	1,268	10.7	14.0	11.6
Other countries	4,335	5,080	4,980	1.9	−0.7	1.3
Sorghum						
Sub-Saharan Africa	8,591	9,768	10,834	1.6	3.5	2.1
Oil exporters	3,632	3,768	3,783	0.5	0.1	0.4
Other countries	4,959	6,000	7,051	2.4	5.5	3.2
Wheat						
Sub-Saharan Africa	1,243	1,220	1,369	−0.2	3.9	0.9
Oil exporters	33	31	35	−0.8	4.1	0.6
Other countries	1,210	1,189	1,334	−0.2	3.9	0.9
Total cereals						
Sub-Saharan Africa	35,576	39,550	41,840	1.3	1.9	1.5
Oil exporters	8,606	9,552	10,289	1.3	2.5	1.6
Other countries	26,970	29,998	31,551	1.3	1.7	1.4
Oil and oilseeds						
Coconuts						
Sub-Saharan Africa	1,451	1,563	1,528	0.9	−0.8	0.5
Oil exporters	86	90	90	0.6	0.0	0.4
Other countries	1,365	1,473	1,438	1.0	−0.8	0.5
Groundnuts (in shell)						
Sub-Saharan Africa	5,194	4,826	4,325	−0.9	−3.6	−1.7
Oil exporters	1,699	503	625	−14.1	7.5	−8.7
Other countries	3,495	4,323	3,700	2.7	−5.1	0.5
Palm kernels						
Sub-Saharan Africa	711	664	743	−0.9	3.8	0.4
Oil exporters	306	310	362	0.2	5.3	1.6
Other countries	405	354	381	−1.7	2.5	−0.5
Palm oil						
Sub-Saharan Africa	1,112	1,321	1,372	2.2	1.3	2.0
Oil exporters	579	718	734	2.7	0.7	2.2
Other countries	533	603	638	1.6	1.9	1.7
Other crops						
Pulses						
Sub-Saharan Africa	3,861	4,207	4,709	1.1	3.8	1.8
Oil exporters	925	923	963	0.0	1.4	0.4
Other countries	2,936	3,284	3,746	1.4	4.5	2.2
Roots and tubers						
Sub-Saharan Africa	66,694	77,026	81,026	1.8	1.7	1.8
Oil exporters	27,674	31,488	32,056	1.6	0.6	1.4
Other countries	39,020	45,538	48,970	1.9	2.4	2.1
Seed cotton						
Sub-Saharan Africa	2,279	1,867	1,705	−2.5	−3.0	−2.6
Oil exporters	268	195	113	−3.9	−16.6	−7.6
Other countries	2,011	1,672	1,592	−2.3	−1.6	−2.1
Sugar						
Sub-Saharan Africa	2,303	2,806	3,203	2.5	4.5	3.0
Oil exporters	179	109	139	−6.0	8.4	−2.3
Other countries	2,124	2,697	3,064	3.0	4.3	3.4

[a] Major crops that are totally or nearly totally exported (such as coffee, tea, cocoa, and rubber) are shown in table 24, which covers exports of agricultural commodities.
[b] End point growth rate.

Source: The World Bank, Toward Sustained Development in sub-Sahara Africa. World Bank, Washington, D.C. September 1984.

Annex C.

Population Growth and Projections

	Average annual growth of population (percent)			Population (millions)			Hypothetical size of stationary population (millions)	Assumed year of reaching net reproduction rate of 1	Population momentum 1980
	1960–70	1970–82	1980–2000	1982	1990ᵃ	2000ᵃ			
Low-income economies	**2.4 w**	**2.8 w**	**3.3 w**	**217 t**	**278 t**	**386 t**			
Low-income semiarid	**2.5 w**	**2.6 w**	**2.7 w**	**31 t**	**37 t**	**48 t**			
1 Chad	1.9	2.0	2.5	5	6	7	22	2040	1.8
2 Mali	2.5	2.7	2.8	7	9	12	42	2040	1.8
3 Burkina Faso	2.0	2.0	2.4	7	8	10	35	2040	1.7
4 Somalia	2.8	2.8	2.4	5	5	7	23	2045	1.8
5 Niger	3.4	3.3	3.3	6	8	11	40	2040	1.9
6 Gambia, The	2.2	3.2	2.3	1	1	1	3	2045	1.9
Low-income other	**2.4 w**	**2.9 w**	**3.4 w**	**186 t**	**241 t**	**338 t**			
7 Ethiopia	2.4	2.0	3.1	33	42	57	231	2045	1.9
8 Guinea Bissau			2.3	1	1	1	4	2045	1.8
9 Zaire	2.0	3.0	3.3	31	40	55	172	2030	1.9
10 Malawi	2.8	3.0	3.4	7	8	12	48	2040	1.9
11 Uganda	3.0	2.7	3.4	14	17	25	89	2035	2.0
12 Rwanda	2.6	3.4	3.6	6	7	11	47	2040	1.9
13 Burundi	1.4	2.2	3.0	4	5	7	27	2040	1.9
14 Tanzania	2.7	3.4	3.5	20	26	36	117	2030	2.0
15 Benin	2.6	2.7	3.3	4	5	7	23	2035	2.0
16 Central African Rep	1.6	2.1	2.8	2	3	4	13	2040	1.9
17 Guinea	1.5	2.0	2.4	6	7	9	28	2045	1.8
18 Madagascar	2.2	2.6	3.2	9	12	16	54	2035	1.9
19 Togo	3.0	2.6	3.3	3	4	5	17	2035	2.0
20 Ghana	2.3	3.0	3.9	12	17	24	83	2030	2.0
21 Kenya	3.2	4.0	4.4	18	26	40	153	2030	2.1
22 Sierra Leone	1.7	2.0	2.4	3	4	5	16	2045	1.9
23 *Mozambique*	2.1	4.3	3.4	13	17	24	82	2035	2.0
Middle-income oil importers	**2.7 w**	**3.3 w**	**3.3 w**	**57 t**	**74 t**	**101 t**			
24 Sudan	2.2	3.2	2.9	20	25	34	112	2035	1.8
25 Mauritania	2.3	2.3	2.6	2	2	3	8	2035	1.9
26 Liberia	3.2	3.5	3.5	2	3	4	12	2030	1.8
27 Senegal	2.3	2.7	3.1	6	8	10	36	2040	1.9
28 Lesotho	2.0	2.4	2.8	1	2	2	7	2030	1.8
29 Zambia	2.6	3.1	3.6	6	8	11	37	2030	2.0
30 Zimbabwe	3.6	3.2	4.4	8	11	16	62	2030	2.1
31 Botswana	2.6	4.3	3.6	1	1	2	6	2025	1.9
32 Swaziland	2.7	3.2	3.9	1	1	1	5	2030	2.0
33 Ivory Coast	3.7	4.9	3.7	9	12	17	58	2035	2.0
34 Mauritius	2.2	1.4	1.6	1	1	1	2	2010	1.8
Middle-income oil exporters	**2.4 w**	**2.6 w**	**3.4 w**	**111 t**	**144 t**	**203 t**			
35 Nigeria	2.5	2.6	3.5	91	119	169	618	2035	2.0
36 Cameroon	2.0	3.0	3.5	9	12	17	65	2035	1.9
37 Congo, People's Rep	2.4	3.0	3.8	2	2	3	10	2025	1.9
38 Gabon	0.4	1.4	2.6	1	1	1	3	2035	1.7
39 *Angola*	2.1	2.5	2.8	8	10	13	44	2040	1.9
Sub-Saharan Africa	**2.4 w**	**2.8 w**	**3.3 w**	**385 t**	**496 t**	**690 t**			
All low-income countries	**2.3 w**	**1.9 w**	**1.7 w**	**2,269 t**	**2,621 t**	**3,097 t**			
All lower middle-income countries	**2.5 w**	**2.5 w**	**2.4 w**	**673 t**	**816 t**	**1,023 t**			
All upper middle-income countries	**2.6 w**	**2.3 w**	**2.1 w**	**490 t**	**588 t**	**718 t**			
Industrial market economies	**1.1 w**	**0.7 w**	**0.4 w**	**723 t**	**749 t**	**780 t**			

Note: For data comparability and coverage see the technical notes.
a. For the assumptions used in the projections see the technical notes.

Source: The World Bank, Toward Sustained Development in sub-Sahara Africa. World Bank, Washington, D.C. September 1984.

Annex D

Agricultural Research

AID Annual Funding Levels per Commodity - FY 1984
(Obligations)

	Regional		Bilateral		IARCs		Cent-Fund		CRSPs		Total Ann	
Commodity	$000	(%)	$000	(%)	$000	(%)	$000	(%)	$000	(%)	$000	(%)
Cereals	18,820	(84)	35,410	(70)	5,330	(37)	840	(42)	2,330	(44)	62,730	(72)
Roots/ tubers	540	(2)	3,730	(7)	2,300	(16)	180	(9)	-	-	6,750	(6)
Pulses (legumes)	2,500	(11)	2,250	(4)	1,870	(13)	140	(7)	1,640	(31)	8,400	(7)
Oilsds/ Hort	-	-	1,200	(2)	290	(2)	160	(8)	510	(10)	2,180	(2)
Animals	540	(2)	8,410	(17)	4,610	(32)	680	(34)	800	(15)	15,040	(13)
TOTALS	22,400		51,000		14,000		2,000		5,300		95,100	

Source: Africa Bureau and Science and Technology Bureau, AID

Annex E

External Funding for Agricultural Research to Africa 1976-80 1/
(Constant 1975 U.S. 000 dollars deflated from 1981 IMF Yearbook)

	1976	1980
Australia	--	--
Belgium 2/	n.a.	5,552
Canada	11,877	6,932
Denmark	--	59
Finland	11	5
France	30,589	42,090
Japan	32	297
Netherlands 3/	2,824	5,289
New Zealand	--	--
Norway	52	1,918
Sweden	608	1,737
Switzerland 3,4/	567	234
W. Germany 4,5/	4,827	4,827
United Kingdom 4/	978	302
United States 4/	5,800	72,000
Total Bilateral	58,165	141,242
EEC	n.a.	8,700
IBRD	2,660	18,500
IDB 5/	--	--
UNDP/FAO 4,5,6/	n.a.	23,300
Total Multilateral	2,660	50,500
Total Bilateral and Multilateral	60,825	191,742
CGIAR System	--	--
Overall Total	60,825	191,742

1/ Does not include base costs of technical assistance organizations of donor countries or agencies.
2/ Data provided for 1980 only.
3/ Includes contribution to core budgets of CGIAR.
4/ Includes some global projects not identified by region.
5/ Five-year total pro-rated by year.
6/ UNDP data for regions apply only to FAO; additional allowance for non-FAO projects included in 1976 and 1980 UNDP totals.

Sources of data: Country reports to FAO and/or IFPRI; World Bank, UNDP, FAO data supplied to IFPRI, IDB data supplied to IFPRI, Bilateral Agency Reports, Marchés Tropicaux (France). Compiled by Peter Oram of IFPRI.

THE EVOLUTION OF ASSISTANCE TO AFRICA
1962-1985

April 21, 1986
Office of Development Planning
Africa Bureau
Agency for International Development

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VI. Steps Taken to Make the Management of A.I.D. to Africa More Effective

EVOLUTION OF U.S. ASSISTANCE TO AFRICA
1962-1985

I. Summary

Africa has become a major focus of U.S. foreign assistance only in recent years . The last five years have accounted for 37% of the $13 billion of total U.S. economic assistance to Africa since 1962. Africa has generally received the smallest share of total U.S. assistance which was less than 10% in the 1970s. (See Figure 1). This has meant that the U.S. has been a relatively minor actor in the region compared to the West Europeans. Moreover, of the $13 billion total in the last twenty-five years, one third has been food assistance.

One of the most striking characteristics of U.S. assistance to Africa has been discontinuity due to:

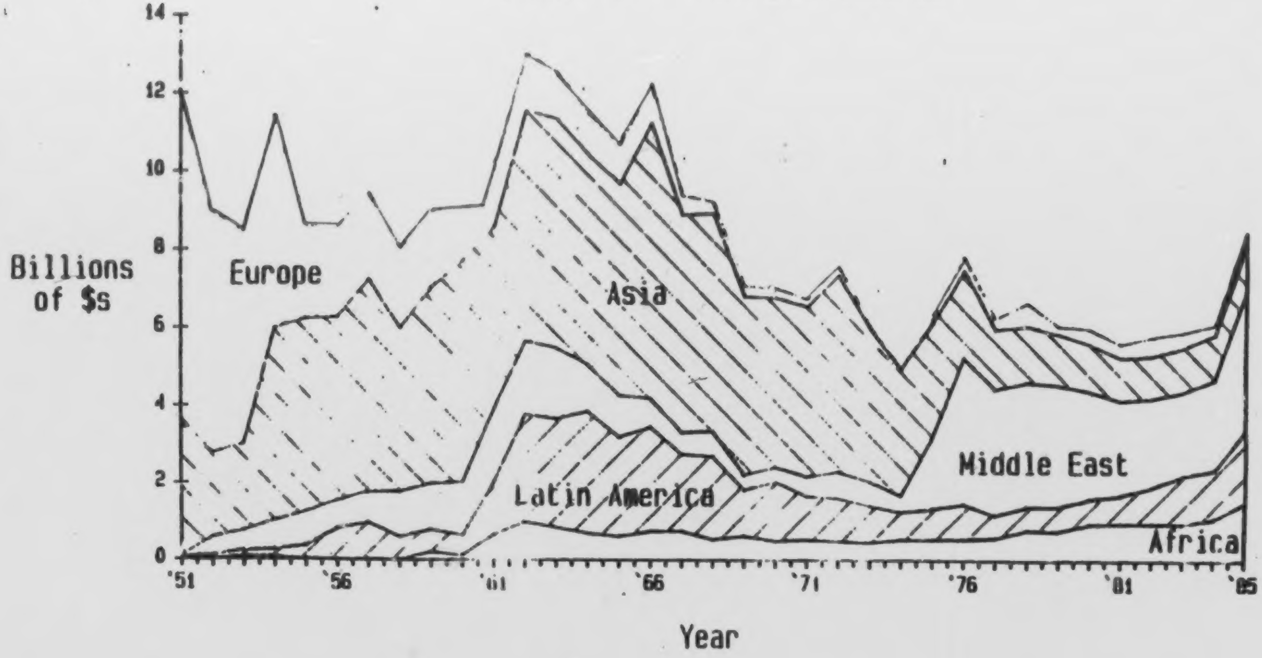
- changes in country focus, fluctuations in program size and interruptions in assistance;
- the evolution of development strategy and change of target group;
- shifts in sectoral priorities and approaches and programming modes (projects , sector loans, etc.); and
- varying emphasis on bilateral, multilateral or regional modes of assistance.

One conclusion that emerges from a review of the history of U.S. assistance is that Africa's lack of development progress cannot be attributed to a failure of U.S. aid, but if anything to the absence of a sustained commitment to Africa's development in terms of resource allocations and continuous aid relationship with the countries of Africa. This is changing today because of 1) the crises Africa faces, 2) the priority this Administration is according to African aid, and 3) the more realistic approach A.I.D. is following.

Figure 1

U.S. ECONOMIC AID, 1951-85,

By Region, in Constant 1985 $s



II. Resource Flows in Relation to Other Donors

The U.S. is a relative newcomer to Africa. When we first provided indirect assistance to Africa in the 1940s, we were 50 years behind the European donors. The U.S.' share of all donor assistance is currently 14%, and it is estimated that our current share is the highest level ever (although comparable data shown in the chart below are only available back to the 1970s). In the sixties and at times in the seventies, it averaged as low as 8%.

Even the major recipients of U.S. assistance have received a relatively small percentage of their aid from the U.S. Except Liberia (at 33%), no African country received more than 15% of its development assistance from the U.S. in the 1970s. In spite of the major increases in U.S. aid to Africa in the 1980s, only four countries (Sudan, Liberia, Somalia, and Zimbabwe) received more than 15% from the U.S. between 1980 and 1984.

As a result, our role and influence are significant, but have to be seen as part of the larger donor effort.

Figure 2

US Assistance as Percent of Total ODA
to Largest Recipients of US Assistance

	1974 - 1979		1980 - 1984		Overall Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Sudan	74	8%	721	28%	795	23%
Zaire	156	10%	155	9%	311	9%
Kenya	119	10%	316	15%	435	13%
Liberia	69	33%	273	51%	342	46%
Somalia	56	13%	331	22%	387	20%
Ghana	80	15%	98	13%	178	14%
Nigeria	10	3%	0	0%	10	2%
Ethiopia	70	9%	35	3%	105	5%
Tanzania	150	7%	96	3%	246	5%
Senegal	73	7%	178	12%	251	10%
Zambia	99	13%	168	14%	268	14%
Zimbabwe	0	0%	237	23%	237	22%
Total	1687.3	8%	3,910	11%	5,598	12%

III. Country Involvement Since 1960

The fact is that development in most African countries has been interrupted by a combination of external and internal factors. The countries themselves have gone through political ups and downs and our relations have mirrored these. Some of these shifts were due to crises, such as the Sahelian droughts. The effectiveness of U.S. assistance, while considerable in the specific, reflects these discontinuities in the aggregate, particularly in the face of the worsening terms of trade, oil shocks and worldwide recession of the past decade. Since 1960, A.I.D. has provided assistance to most of the 46 countries in SubSaharan Africa. This assistance must be assessed in the context of the shifts in emphasis countries, and the fluctuations and interruptions in assistance that have continually occurred.

The chart on "Fluctuations in U.S. Assistance" (figure 3) shows five of our major programs that have had some of the largest changes in aid levels. Zaire largely reflected changing political conditions; Ghana reflected changes in both political and economic conditions. Although overall much of the change in the levels for Ethiopia and Senegal reflected changing political conditions, the increases in 1973-74 reflected the response to the drought. The 1984 increase for Ethiopia was the drought response in spite of political conditions.

Interruptions in assistance are an even greater problem for the continuity required to best pursue sustained development. Liberia and Zaire are two of the major countries where A.I.D. has continued uninterrupted for several decades. Notable contrasts are Sudan, Somalia, Nigeria. (See figure 4.)

Part of the explanation for the changes in levels reflects a conscious effort during the last 25 years to select a small group of countries that would receive particular attention. The current 41 countries receiving U.S. assistance are divided into three groups according to need, potential and U.S. interests. With so many countries in Sub-Saharan Africa, concentrating limited resources has always been essential. For example during the 1960s, 60% of U.S. assistance was concentrated in seven countries, with 40% spread over 26 countries.

Ethiopia, Nigeria, Ghana and Liberia had been major recipients in the 1960s and continued to be important into the early 1970s, but the drought was responsible for a shifting emphasis and resources to the Sahelian countries. Into the later 1970s, there was increased emphasis on aid to poorer countries. This, of course, included the Sahel, and as can be seen from the series of maps, this is the time

Fluctuations in US Assistance to

Selected African Countries 1962 – 1984

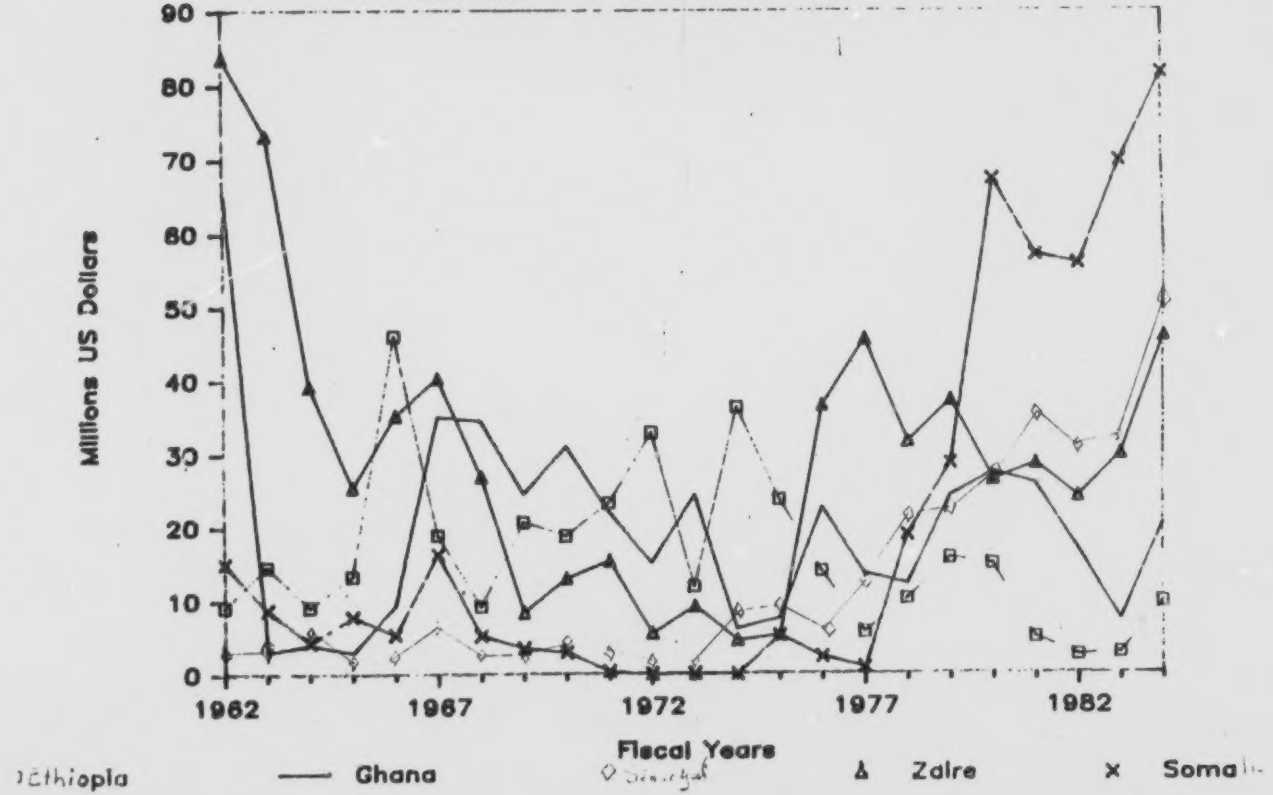


Figure 4

INTERRUPTIONS IN US ASSISTANCE TO SUB SAHARAN AFRICAN COUNTRIES

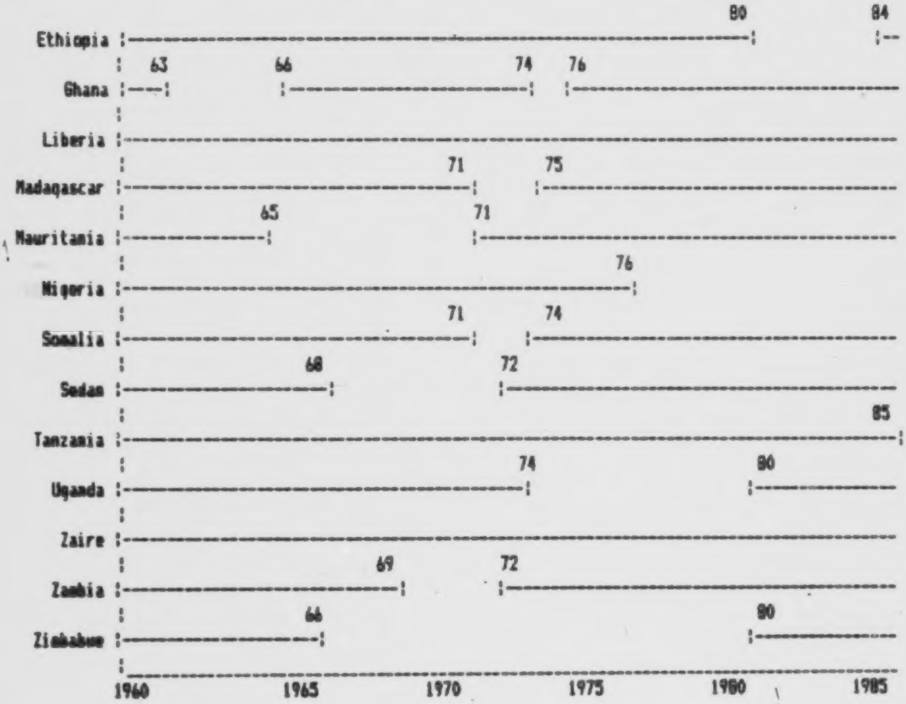


Figure 5

MAJOR RECIPIENTS OF US ECONOMIC ASSISTANCE*

1962 - 1972		1973 - 1976		1977 - 1980		1981 - 1985	
Country	Program Level	Country	Program Level	Country	Program Level	Country	Program Level
Nigeria	$37.9	Tanzania	$23.4	Sudan	$40.1	Sudan	$166.4
Zaire	33.4	Ethiopia	21.6	Kenya	36.0	Somalia	67.0
Ghana	22.5	Ghana	15.1	Zambia	36.0	Kenya	63.6
Ethiopia	19.7	Kenya	14.4	Zaire	35.3	Liberia	63.5
Liberia	15.1	Mali	14.2	Somalia	29.0	Zimbabwe	50.1
		Zaire	13.9	Tanzania	24.8	Senegal	38.9
		Niger	12.4	Senegal	21.0	Zaire	37.6
		Liberia	11.8	Burkina Faso	20.7	Zambia	34.4
				Ghana	19.4	Niger	23.3
				Liberia	17.4	Lesotho	20.2
				Mali	15.7	Cameroon	20.2
				Botswana	15.1	Mali	19.9
				Mozambique	12.3	Burkina Faso	17.5
				Niger	12.2	Ghana	17.4
				Ethiopia	11.7	Botswana	15.8
				Chad	11.5	Tanzania	14.9
				Cameroon	10.2	Mauritania	13.8
						Mozambique	13.5
						Malawi	12.3
						Madagascar	12.3
						Rwanda	11.9
TOTAL	209.2		221.1		464.2		839.6

* Major recpient defined as receiving in excess of $10 million in current dollars.
Data source is US Loans and Obligations and International Programs(green book).

that assistance to the poorer countries of southern Africa increased as well. The assessment of need, potential, and U.S. interest in the 1980s has put current emphasis in Sudan, Kenya, Somalia, and Liberia. To some extent these shifts in priority explain changes in the levels of assistance.

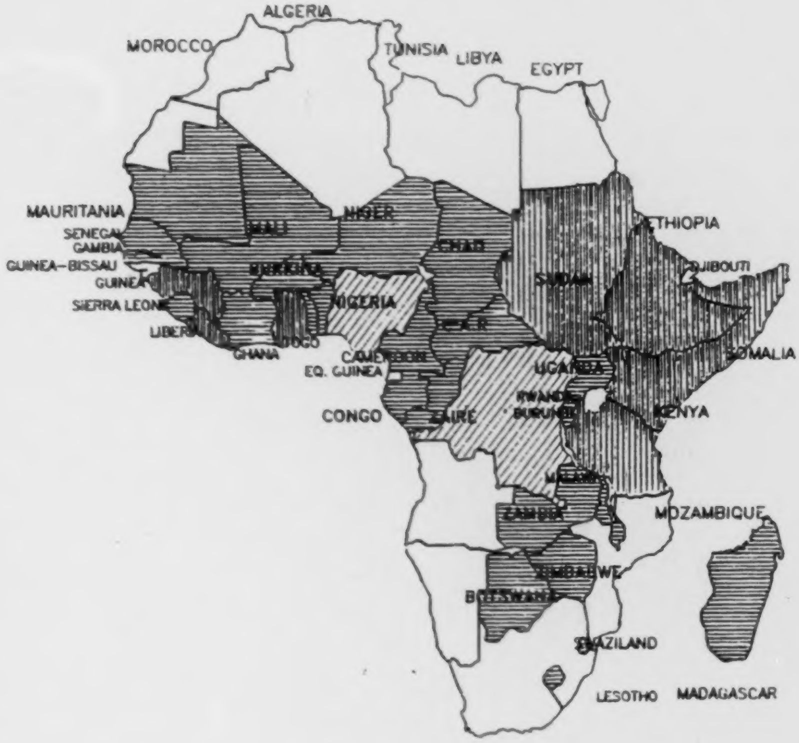
Two approaches to increasing the effectiveness of our aid even to countries that were not of particular emphasis have been regionalism, such as the Entente Fund, and multilateralism, such as the Consultative Groups chaired by the World Bank. These approaches received early prominence from an assessment in 1966 of the effectiveness of U.S. assistance to Africa (known as the Korry Report). It led to a very strong emphasis on multilateralism and regionalism, with the assistance to the East African Economic Community as the strongest case in point.

Although the drought of the early seventies led to a heightened awareness of any single donor's inability to adequately support so many countries with such considerable need, the growth of assistance in the aftermath gradually replaced the regional approach with a steadily increasing number of bilateral programs and missions. Still, the current regional programs account for 20% of total U.S. assistance.

Clearly the effectiveness and impact of some of our major programs has been constrained by the discontinuities that have occurred because of the changing internal and external African environments, changing relations with the U.S., and changes in U.S. emphasis on bilateral, multilateral or regional modes of assistance. Beyond changes in country programs reflecting political and economic realities, A.I.D.'s development strategy has gone through a metamorphosis as well.

AVERAGE LEVELS OF U.S. ASSISTANCE

FY 1962–1973

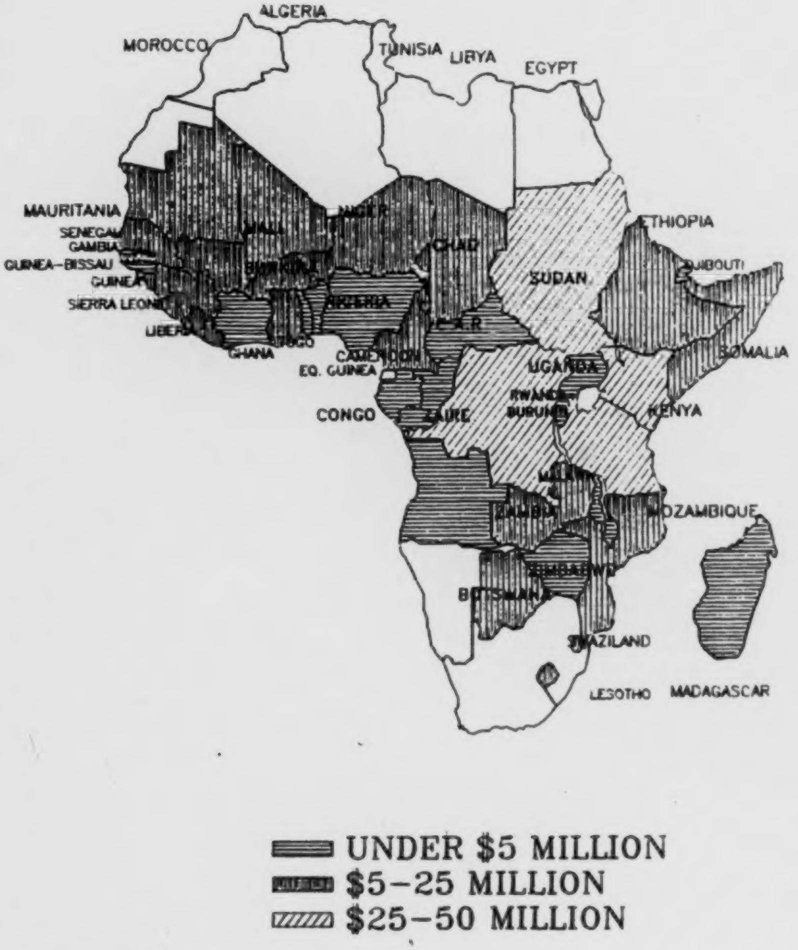

ALGERIA
MOROCCO
TUNISIA
LIBYA
EGYPT
MAURITANIA
SENEGAL
GAMBIA
GUINEA-BISSAU
GUINEA
SIERRA LEONE
LIBERIA
GHANA
TOGO
MALI
BURKINA
NIGER
NIGERIA
CHAD
SUDAN
ETHIOPIA
DJIBOUTI
SOMALIA
C.A.R.
CAMEROON
EQ. GUINEA
CONGO
ZAIRE
UGANDA
RWANDA
BURUNDI
KENYA
MALAWI
ZAMBIA
MOZAMBIQUE
ZIMBABWE
BOTSWANA
SWAZILAND
LESOTHO
MADAGASCAR

▤ UNDER $5 MILLION
▥ $5–25 MILLION
▨ $25–50 MILLION

BLANKS INDICATE NO PROGRAM

AVERAGE LEVELS OF U.S. ASSISTANCE

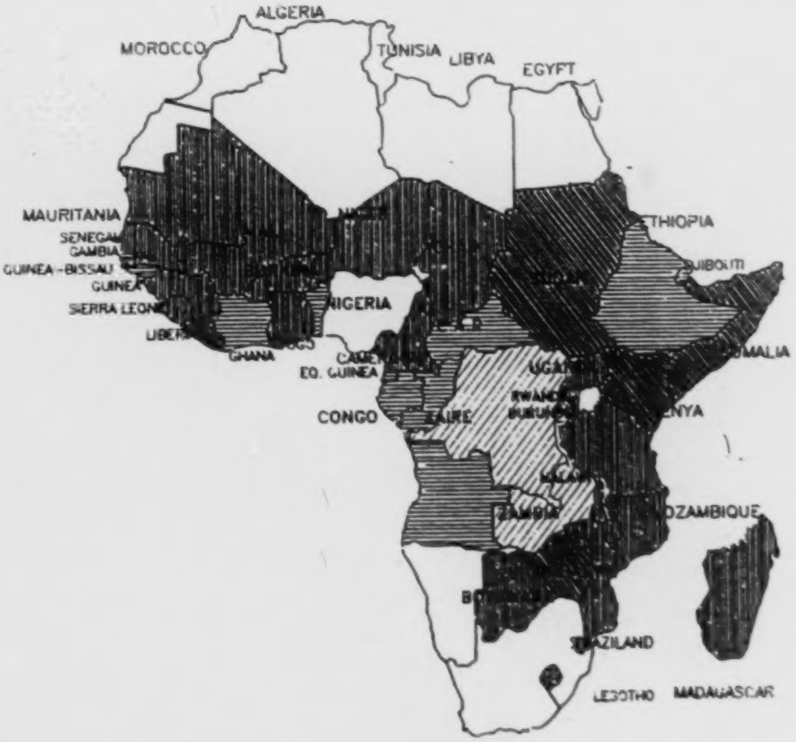
FY 1974-1980


ALGERIA
MOROCCO
TUNISIA
LIBYA
EGYPT
MAURITANIA
SENEGAL
GAMBIA
GUINEA-BISSAU
GUINEA
SIERRA LEONE
LIBERIA
MALI
NIGER
BURKINA
GHANA
TOGO
NIGERIA
CHAD
C.A.R.
SUDAN
ETHIOPIA
DJIBOUTI
SOMALIA
CAMEROON
EQ. GUINEA
CONGO
ZAIRE
UGANDA
RWANDA
BURUNDI
KENYA
MALAWI
ZAMBIA
MOZAMBIQUE
ZIMBABWE
BOTSWANA
SWAZILAND
LESOTHO
MADAGASCAR
▤ UNDER $5 MILLION
▥ $5-25 MILLION
▨ $25-50 MILLION

BLANKS INDICATE NO PROGRAM

AVERAGE LEVELS OF U.S. ASSISTANCE

FY 1981–1985


ALGERIA
MOROCCO
TUNISIA
LIBYA
EGYPT
MAURITANIA
SENEGAL
GAMBIA
GUINEA-BISSAU
GUINEA
SIERRA LEONE
LIBERIA
GHANA
TOGO
NIGER
NIGERIA
CAMEROON
EQ. GUINEA
CONGO
ZAIRE
ETHIOPIA
DJIBOUTI
SUDAN
SOMALIA
UGANDA
RWANDA
BURUNDI
KENYA
MALAWI
ZAMBIA
MOZAMBIQUE
BOTSWANA
SWAZILAND
LESOTHO
MADAGASCAR

▤ UNDER $5 MILLION
▥ $5–25 MILLION
▨ $25–50 MILLION
■ OVER $50 MILLION

BLANKS INDICATE NO PROGRAM

IV. A.I.D.'s Changing Development Strategy and Approaches

A. The Evolving Strategy

Development is only one of the several objectives the Agency for International Development has pursued. In the late fifties and early sixties, the program emphasized U.S. national/strategic interests concentrating resources in countries with military facilities.

Building Social and Economic Infrastructure -- 1962-1972

By 1962, the emphasis had shifted pointedly toward development, building social and economic infrastructure. The early sixties program concentrated on meeting the great needs for skilled manpower in all parts of the private and public sectors by emphasizing social infrastructure. In the mid-sixties, the emphasis shifted to economic infrastructure, particularly industrial development but also transportation, power, and communications.

Basic Human Needs -- 1973-1980

The social and economic infrastructure strategy of the sixties was criticized in the early seventies for excluding the rural poor from the benefits of development. By 1973, Congress mandated the New Directions strategy with the purpose of increasing incomes and the quality of life for rural people -- Basic Human Needs. The 1974 Congressional Presentation states "Over the past few years, AID has shifted its primary emphasis from strengthening various government and public institutions to meeting the challenges of independence. AID's more recent assistance strategy concentrates on activities which directly affect the quality of life of the average African." p.2

Agricultural development was central to the strategy and direct assistance projects were viewed as the best way to reach the poor. This led to supporting governmental delivery of social services and integrated rural development efforts. With the exception of small PVO activities that were self-sufficient, most projects ran up against weak government ministries, budget constraints, and other structural constraints. Although these projects may have been of assistance to the direct beneficiaries, the structural impediments seriously undercut their ability to have any lasting effect.

The Sahelian Drought in 1973-74 necessitated an emphasis on relief for the Sahel and Sudan diverting the programs in those countries away from impact in achieving long-term developmental goals as well.

Structural Adjustment for Growth -- 1981-1986

By the 1930s, agriculture was still central, but it was clear that sustained growth would require economic restructuring, diversification and export development to provide jobs and incomes for a rapidly growing labor force and to generate enough foreign exchange to cover debt and import bills. For example, policy reform offers one of the most effective and quickest ways to create incentives for farmers and businessmen to produce and sell more.

These new emphases are undertaken in a context where foreign policy has reemerged as the major objective in the 1980s with development as an integral part. To pursue these objectives and the considerable needs of the countries in Africa, AID must use all available resources, including ESF. Whereas the security supporting assistance of the 1950s was purely political, ESF monies today are also used developmentally providing an opportunity to support political stabilization as well as economic stabilization. The increased use of ESF has facilitated significant economic policy reform programs in many countries (e.g. Zambia and Senegal) in order to address the increasingly complex problems faced by most African countries.

B. Sectoral Trends and Modes of Assistance

As building blocks to the overall strategy, sectors have gone through their own shifts in emphasis and priorities -- largely shadowing the evolution of the strategy through the periods. All sectors focussed on basic infrastructure in the sixties: agricultural infrastructure for the rural areas, industrial infrastructure in the urban areas, education and health systems for both. Large capital projects were the norm with big, direct-hire technical assistance teams building scores of institutions.

The "sectoral" trend of the Basic Human Needs era was multisectoral. Integrated rural development projects became popular -- combinations of agriculture,infrastructure, social services, and anything else that was thought to constrain agricultural production as broadly construed. To a large degree, approaches in education and health realigned in support of village-focussed service delivery. This was the era of the complex, direct service-delivery projects with substantial amounts of contracted technical assistance. But the complexity and ambitiousness of these projects demanded more than the governments could provide both in terms of adequate budgets for recurrent costs and as institutions capable of effectively implementing such projects.

The Structural Adjustment era of the eighties focusses on policy reform to provide producer incentives in agriculture, and institutional restructuring in all sectors, to recognize what governments can and cannot do well. The results of the primary health care projects of the sixties and seventies were mixed at best and therefore the focus has shifted from government provision of these services to PVOs and the private sector. The exception is the narrow targetting on a specific disease or problem that can be handled most appropriately by governments, such as immunization.

Although, A.I.D. programs in some countries still include projects in primary education improvement (such as Cameroon, Botswana, and Liberia), the shift away from government provision of education services that they cannot afford has focussed activities in the education sector on those supportive of growth. Therefore, a large proportion of funds in the education account is allocated to participant training in agriculture.

The new objectives require more flexibility in the way A.I.D. uses different modes of assistance. For 20 years after the developmental focus of the early sixties, the bread and butter of AID's portfolio was the project. AID made use of PL480 and sector grants and loans but some 60% of the portfolio was "projectized" up through the Basic Human Needs period of the 1970s. (See figure 11.)

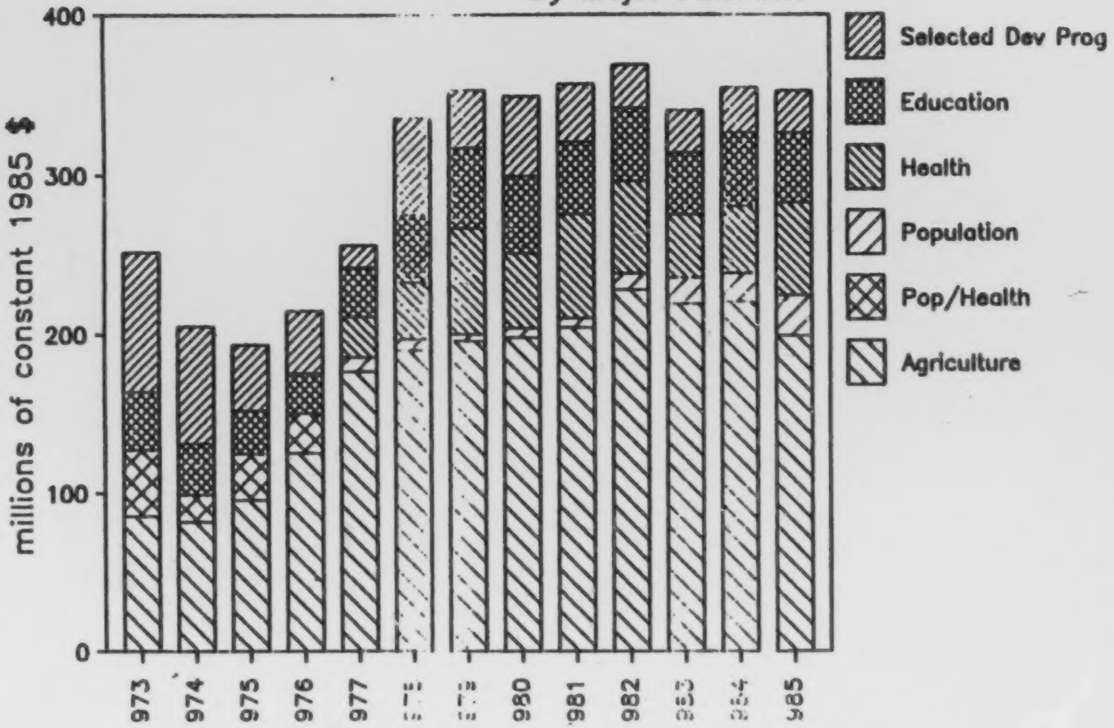
The realities in Africa, the Structural Adjustment strategy, and the availability of U.S. budget and staff resources all argue for a balance in the 1980s of project and nonproject assistance with larger and longer duration projects and quick disbursing, flexible, policy-based assistance.

Policy reform is the cornerstone of the current strategy to achieve economic growth. Non-project assistance, such as the Commodity Inport Programs that support the provision of services and inputs, provide flexibility and allow the quick disbursement needed to support policy reform efforts. Accordingly, "non-project" assistance accounts for 60% of the Africa Bureau's portfolio.

Figure 9

U.S. DEVELOPMENT AID TO AFRICA

By Major Function



[illegible]
By Major Function
(millions of constant 1985 $)

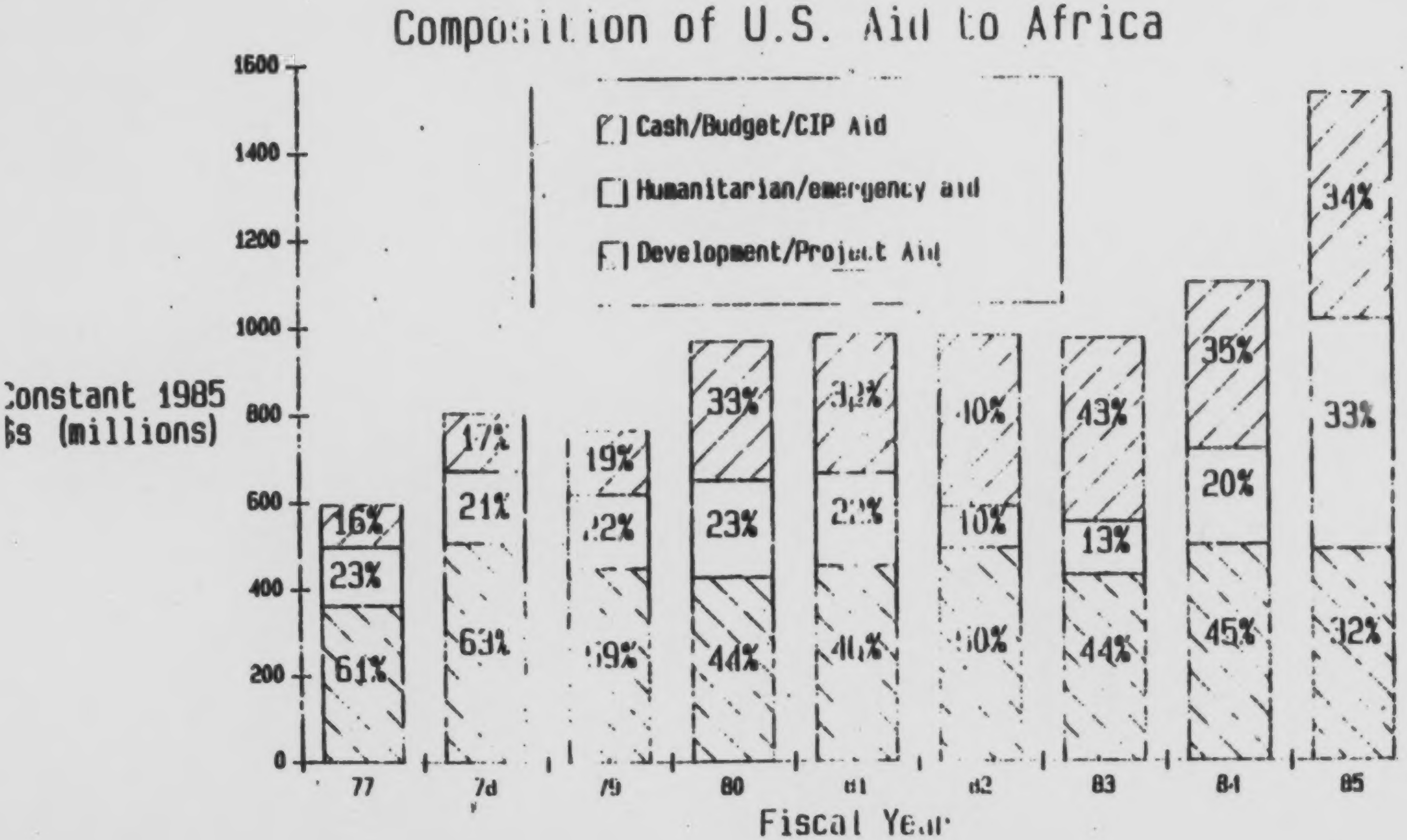
Figure 10

	Agriculture	Pop/Health	Population	Health	Education	Selected Dev Prog	Total
1973	$85.5	$42.0	$.0	$.0	$36.5	$87.7	$251.5
1974	$81.8	$17.2	$.0	$.0	$32.3	$73.7	$204.9
1975	$95.5	$29.4	$.0	$.0	$27.3	$41.2	$193.4
1976	$125.3	$25.1	$.0	$.0	$25.1	$39.1	$214.7
1977	$176.6	$.0	$9.0	$25.4	$31.0	$13.9	$255.9
1978	$190.0	$.0	$6.9	$35.5	$42.2	$61.0	$335.6
1979	$195.7	$.0	$4.3	$66.4	$50.6	$36.0	$352.9
1980	$198.0	$.0	$5.9	$46.9	$48.4	$49.7	$348.9
1981	$204.3	$.0	$5.8	$65.3	$45.1	$36.1	$356.7
1982	$227.8	$.0	$10.1	$58.2	$45.5	$27.0	$360.6
1983	$218.9	$.0	$16.3	$39.9	$38.7	$26.3	$340.1
1984	$220.1	$.0	$17.8	$42.1	$46.5	$28.0	$354.4
1985	$198.7	$.0	$25.3	$58.3	$43.6	$26.3	$352.2

EACH FUNCTION AS A PERCENT OF TOTAL DEVELOPMENT AID

	Agriculture	Health/ Population		Health	Education	Selected Dev Prog	Total
1973	34.0%	16.7%	---	---	14.5%	34.8%	100.0%
1974	39.9%	8.4%	---	---	15.8%	36.0%	100.0%
1975	49.4%	15.2%	---	---	14.1%	21.3%	100.0%
1976	58.4%	11.7%	---	---	11.7%	18.2%	100.0%
1977	69.0%	---	3.5%	9.9%	12.1%	5.4%	100.0%
1978	56.6%	---	2.1%	10.6%	12.6%	18.2%	100.0%
1979	55.5%	---	1.2%	18.8%	14.3%	10.2%	100.0%
1980	56.8%	---	1.7%	13.4%	13.9%	14.3%	100.0%
1981	57.3%	---	1.6%	18.3%	12.7%	10.1%	100.0%
1982	61.8%	---	2.7%	15.8%	12.3%	7.3%	100.0%
1983	64.4%	---	4.8%	11.7%	11.4%	7.7%	100.0%
1984	62.1%	---	5.0%	11.9%	13.1%	7.9%	100.0%
1985	56.4%	---	7.2%	16.6%	12.4%	7.5%	100.0%

Figure 11


Composition of U.S. Aid to Africa
Cash/Budget/CIP Aid
Humanitarian/emergency aid
Development/Project Aid
Constant 1985
$s (millions)
1600
1400
1200
1000
800
600
400
200
0
16%
23%
61%
17%
21%
63%
19%
22%
59%
33%
23%
44%
32%
22%
46%
40%
10%
50%
43%
13%
44%
35%
20%
45%
34%
33%
32%
77
78
79
80
81
82
83
84
85
Fiscal Year

V. Lessons and Current Realities

Changes in U.S. assistance have been a factor of the changing world but also of U.S. attempts to meet the challenges of African development in that changing world. Still, there is a very real need to continue to improve the effectiveness of donor assistance. The U.S. has done a good deal of stock-taking in the last two years, triggered by the calamitous 1984-1985 famine and by Africa's deepening economic crisis. We have already begun to reshape our assistance to Africa in light of some emerging lessons:

-- There has been a tendency to fragment support across countries and sectors with the result, sometimes, that inadequate resources have been directed at pressing priority problems;

-- In spite of sometimes considerable attempts, donor coordination has been inadequate to avoid a proliferation of uncoordinated, sometimes competitive donor-sponsored projects;

-- Modes of assistance have sometimes been too inflexible, for example providing project assistance only despite contraints to that project assistance from alien policy environments, recurrent cost crises due to budgetary constraints, and other factors requiring a new approach;

-- There has been inadequate attention to the development of a supportive macro-policy framework conducive to domestic and foreign investment;

-- There has also been inadequate attention to some of the other basic building blocks of development such as agricultural institutional development, human resource development, and physical infrastructure maintenance and operations;

-- Donors have been too ready to rely on the public sector to plan and manage activities that could, in many cases, be better left to private enterprise;

-- Africa as a region has not received priority by U.S. and other donors and international institutions;

-- Developmental approaches pioneered in Latin America and Asia have been imported to Africa without regard to different stages of development.

VI. Steps Taken to Make the Management of Aid to Africa More Effective

A.I.D. resources for Africa are unlikely to increase significantly over the coming years. In fact, the Gramm-Rudman-Hollings deficit targets may mean a reduction in current levels. This will force even more selectivity and concentration in the use of our resources. To deal with these challenges, the Africa Bureau has taken a number of steps to improve the effectiveness of its assistance.

-- We have classified countries into three categories in terms of political and developmental criteria as a guide to our programming, budget allocations, documentation requirements, delegations of authority and staffing. We are moving to less staff-intensive approaches in the smaller countries (e.g. CIP to Seychelles).

-- We are pressing our field missions very hard to concentrate their programs in a a few key sectors and reduce the number of active projects by phasing out low priority or problem projects and by limiting the number of new starts. For example, we plan 32 new starts in FY 87 compared to 66 in FY 85.

-- We are increasing our use of non-project assistance and encouraging missions to develop larger projects to respond to Africa's current need and reduce paperwork. Non-project assistance now accounts for over half of our programs.

-- We are setting priorities within sectors to increase the impact of our programs (e.g. the Agricultural Research Plan concentrates efforts in 6-8 countries).

-- We are cutting back and streamlining documentation requirements. For example, we have exempted small countries from CDSS and Action Plan requirements. This year 3 CDSSs are required compared to over 30 submissions 2 years ago.

-- We are increasingly delegating project authorizations to the field. In 1986, the Africa Bureau expects over half of its new projects to be authorized in the field.

-- We are holding missions to a reasonable staff to program ratio. Sahel mission staffs, for example, have been reduced by 25% in the last year.

-- Overall Bureau staff levels have been contained despite the demands of the famine, new programs in Madagascar, Mozambique, southern Africa, and several important new initiatives (e.g. AEPRP, Child Survival), through reorganization, greater automation, more aggressive recruitment of qualified staft, and improved productivity.

-- We are using an innovative approach to streamlining approval of PVO activities called "umbrella projects". AID/W approves a multi-year funding level and strategy/criteria for mission selection of PVO subprojects. The mission then has full authority to approve activities in their country. This has facilitated the dialogue between missions and the PVO community, thereby improving the quality of proposals.

-- We are streamlining our evaluation system to provide better information on program impact and factoring evaluation results into strategy formulation and project design and implementation.

-- We are conducting three mission management assessments per year to provide information for continued improvement.

AID'S EXPERIENCE WITH THE FY 85
AFRICAN ECONOMIC POLICY
REFORM PROGRAM
(AEPRP)

A report prepared by the Policy Analysis and Research Division of the Office of Development Planning, Bureau for Africa. Comments and questions should be submitted to Jerome Wolgin, Chief, AFR/DP/PAR, 647-2994.

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C.

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AID'S EXPERIENCE WITH THE FY 85 AEPRP

The AEPRP offers AID a unique opportunity to provide a new and independent voice in policy dialogue issues in Africa. This program has energized our Missions to redirect and expand the policy dialogue component of our programs; acted as a magnet in attracting other donor programs in support of policy reform objectives; and provided AID with an important entree with African governments in the policy dialogue process.

The following brief review of the FY 85 AEPRPs is divided into two major sections: (I) a review of the FY 85 programs themselves; and (II) a discussion of the lessons learned in the design process. In addition, there is an annex: (A) a summary of the FY 85 programs in graphic form.

I. CAPSULE SUMMARIES OF THE FY 85 PROGRAMS:

MALI ($18,000,000)

PURPOSE: To begin the process of reduction of Government involvement in the economy, and to provide the environment for increased private sector activity.

POLICIES: (1) Tax reform and reduction to improve private sector incentives; (2) restructuring expenditures to begin reduction of civil service payroll and increase funds available for non-wage expenditures; (3) revision of commercial code; (4) relaxation of price controls.

USE OF FUNDS: (1) Cash grant of $8,335,000 to reimburse GOM for shortterm revenue shortfall; (2) cash grant of $8,365,000 to help the GOM increase its share of expenditures on non-personal costs; and (3) technical and commodity assistance of $1,300,000 to aid in computerization of budget and tax collection.

ZAMBIA ($25,000,000)

PURPOSE: To liberalize agriculture marketing in the two major commodities still controlled by the Government, maize and fertilizer, in order to create the right incentive structure for agricultural development.

POLICIES: (1) Elimination of subsidies on maize and fertilizer; (2) Introduction of regional pricing for maize and fertilizer; (3) Allowing private sector marketing in maize and fertilizer

USE OF FUNDS: Commodities financed under a CIP will be provided to improve agricultural marketing. These will include small trucks, tires, railway and truck spares, road maintenance equipment, and possibly POL. Local currency generations will be used for credit to private sector traders, for credit to the co-operative sector, and to provide targetted subsidies for the poorest groups adversely affected by food price increases.

MALAWI ($15,000,000)

PURPOSE: To rationalize fertilizer policy in order to promote agricultural diversification.

POLICIES: (1) Reduction of fertilizer subsidies; (2) shift from low nutrient, high cost fertilizers to high nutrient, low-cost fertilizers.

USE OF FUNDS: Cash grant of $13,100,000 to be used to maintain the integrity of two credit funds associated with the purchase of fertilizer; technical assistance of $1,900,000 for studies and assistance in budgeting, agricultural marketing including divestiture of parastatals, storage, and policy with respect to strategic grain reserves.

RWANDA ($12,000,000)

PURPOSE: To create an improved environment for the development of small and medium private enterprises.

POLICIES: Specific changes include: 1) liberalizing price controls, 2) examining the entire tariff structure; and 3) increasing access of small and medium enterprises to tax incentives and credit guarantees.

USE OF AID FUNDS: A cash grant of $10,000,000 will support a small and medium enterprise credit fund and offset short-term revenue shortfalls to the Rwandan Government from these policy changes. Technical assistance of $2,000,000 will be provided for studies and short term advisors to examine and improve the whole incentive structure for private sector, including a comprehensive review of tariff and trade policy.

MAURITIUS ($5,000,000)

PURPOSE: The purpose of this program is to aid Mauritius in its reform of its industrial incentive system.

POLICIES: Among the policies being called for are (1) imposing a ceiling of 100% on all tariffs; (2) reducing marginal personal tax rates; and (3) improving export incentives.

USES OF AID FUNDS: AID is providing a cash transfer to offset the fiscal loss of these reforms.

BROAD PROGRAMMING COMMONALITIES

CONDITIONALITY AND TRANCHING: Each of the AEPRPs is divided into several tranches. Programs are authorized in FY 85, but disbursements will occur over the CY85 to CY88 period. Before any tranche can be disbursed, recipient Governments must provide AID with proof that the Conditions Precedent (CPs) to that tranche have been met. These conditions vary from announcing new prices which reduce subsidy levels (Malawi and Zambia) to passing legislation or announcing administrative decisions to increase access to certain credit guarantees (Rwanda) to changing tax and tariff policy (Mali and Mauritius).

IMPACT OF AEPRP ON PRIVATE SECTOR: All of the AEPRPs are aimed at either reducing government activity in the productive sectors of the economy, reducing or rationalizing government controls on the private sector, or both:

-- In Zambia, the entire program is designed to reduce the Government's role in agricultural marketing to the level needed to ensure competition.

-- In Rwanda, the program is designed to reduce government price controls, to broaden access to credit, and to rationalize the tax system sa to improve the climate for small enterprises.

-- In Mali, while the major thrust of the program is to improve fiscal policy, a concommitant part of this initiative is to improve the investment climate for private sector activity through tax reform, reductiion of price controls, and changes in the investment code.

-- In Mauritius, the major objective of the program is to increase efficient private sector activity by reducing tariffs and marginal tax rates.

-- In Malawi, major studies are to be undertaken examining the role of ADMARC, the marketing parastatal, with particular emphasis on developing a capacity to privatize many of ADMARC's current functions.

II. LESSONS LEARNED: While we are still implementing these proposals, the process of design and early implementation has led to some important observations.

EFFECT ON NORMAL BILATERAL PROGRAM: The AEPRPs will have an impact well beyond the programs themselves. These programs have tended to be more directed at broad development issues and our development strategies in each of these countries will be redirected to take advantage of the new opportunities offered by the AEPRP. There are three reasons for this phenomenon:

(1) Missions saw the AEPRP, because it was funded out of ESF, as being available for broad strategic programs. Indeed, three of the AEPRP programs concentrated on either the industrial sector or the broader issue of public vs. private sector.

(2) In all of the AEPRP countries except Zambia, AID has had a relatively small program focussed on a few sectoral or sub-sectoral issues. The size and nature of these programs generally precluded our discussing broad policy issues with the recipient governments.

(3) The nature of the AEPRP, a concentrated and dramatic increase in program levels, attracts considerable attention from recipients. It gives AID a basis for a continuing policy dialogue as well as a seat at the policy table which it wouldn't otherwise have.

THE IMPORTANCE OF PROCESS: Perhaps as important as the product in each of the AEPRP countries is the policy dialogue process which these programs have engendered.

-- In Rwanda, the Government set up a special inter-departmental committee to develop and review policy reform proposals as part of their discussions with A.I.D. As a result, the GOR is concentrating on policy reform issues for the first time.

-- In Mali, the AEPRP is central to the start of a long-term process to move the government out of the economy. A.I.D.'s program may be the catalyst needed to energize that process.

-- In Malawi, A.I.D. has moved from a minor donor to a major influence on agricultural policy. As part of the Malawi AEPRP, A.I.D. is entering into studies and discussions that may lead to major reforms in agricultural marketing, in agricultural pricing policy, and in divestiture of some major parastatal activities.

DONOR COORDINATION: The AEPRPs have been developed in close coordination with key donors, particularly the World Bank. Taken together, the AEPRPs and the Bank's structural adjustment programs have achieved a significant synergism not present when each was developed in isolation. Significantly, the AEPRPs have generally moved beyond what the Bank was doing, and advanced the reform process more quickly and probably more broadly than would have been the case without our presence. Equally important, the nature of these programs differs in important ways from IBRD policy reform programs, in that we have designed them to alleviate the political stress that policy reform brings.

-- In Rwanda, policy dialogue on the part of all donors had been limited to project level issues. Neither the Fund nor the Bank has had broad sectoral or macroeconomic programs in Rwanda. The AEPRP has been the leading edge of what will be a major structural reform program by the Bank.

-- In Mali, the AID program is the catalyst that has lent the necessary impetus to implementing reforms previously agreed to. Drawing on technical work done by the IMF and the UNDP, the AEPRP was the mechanism which concentrated the energies of the Malian Government, drew together different Ministries, and consolidated a number of different, and halting reform efforts.

-- In Zambia, the AEPRP tracks very closely with that of the IBRD (funding for agricultural sector rehabilitation is also coming from the AfDB). However, technical work done by AID staff helped correct several misconceptions held by other donors. Moreover, the AID program is designed to help reduce the political costs of these changes, and thus make implementation more certain. This program has also helped catalyze the British into a more active policy role in Zambia. They have committed about $10 million from their contribution to the Bank's Special Facility to the policy reform effort.

-- In Malawi, the AEPRP is part of a multi-donor effort connected to the World Bank's Structural Adjustment Loan (other donors include Great Britian, Japan, and Germany). The fertilizer policy reform is one element of the Structural Adjustment Loan. Because AID concentrated on this issue alone, because it emphasized actions to help implement reforms, and because of the excellent technical staff contracted, AID's program was instrumental in making reform in this sector possible.

-- In Mauritius, the AEPRP has been closely associated with the IBRD's trade reform program. In fact several Mauritian officials felt that the U.S. had shown far greater awareness of the exigencies of adopting economic reform measures within a changeable world economy and a democratic country than had the World Bank.

DESIGN ISSUES: Despite the fact that four of the first five programs were cash grants, these programs have turned out to be more complicated than first expected because they have been designed them in such a way as to put great emphasis on reducing the political costs associated with any changes. This has led AID to associate its program funds with technical assistance and to target the use of its non-project assistance resources carefully. For example:

In Malawi, the political problems associated with the removal of fertilizer subsidies led AID to emphasize the need to change the types of fertilizer being used. This led to involvement in agricultural research and extension, in improving the capacity of the Ministry of Agriculture to test soils, and to examining the feasibility of building a fertilizer bulk blending plant in Malawi.

In Mali, the program required both substantial technical and commodity assistance to monitor compliance and the development of private sector opportunities for retiring civil servants.

In Zambia, AID resources will be used to enable private sector traders and transporters to compete with the parastatal marketing Agency. Some of the local currencies will be used as carefully targetted subsidies to reduce the adverse impact of food price increases on the poorest urban dwellers.

STAFFING: The first generation of AEPRPs were identified and designed with substantial inputs of Washington staff, particularly economics staff. These programs require highly talented analytic staff in their design, but even more importantly, in their implementation. The ability of small Missions to monitor and implement these programs remains weak.

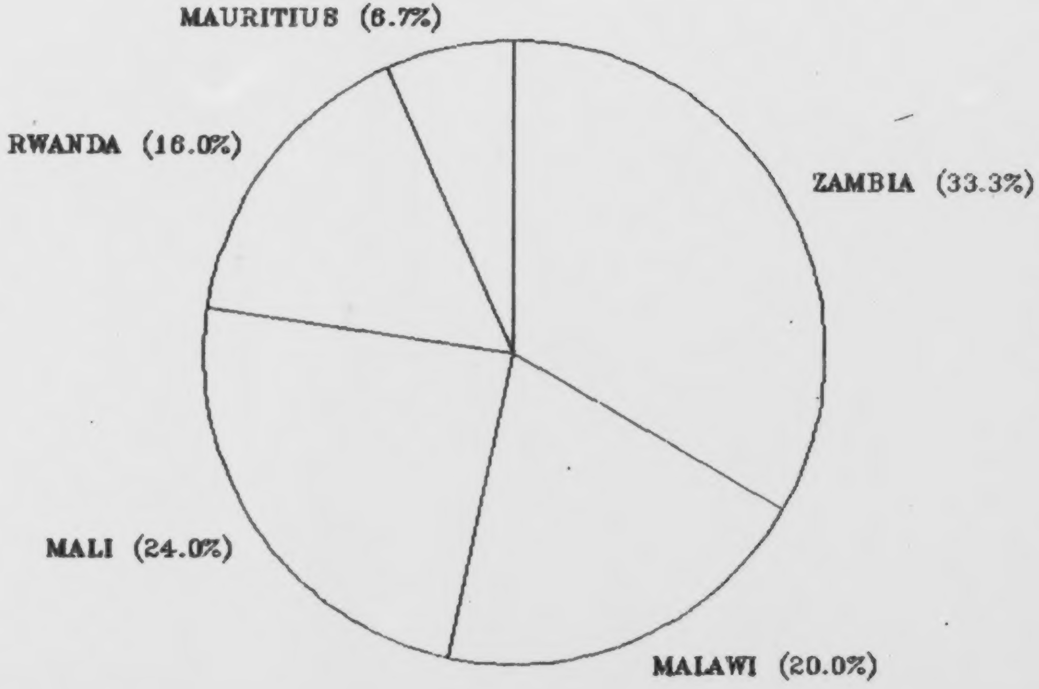
RISK: These programs are high-risk, high impact. It should not be surprising if some of them fail to achieve their objectives, or, if Conditions Precedent are not met and some programs are de-obligated funds.

ANNEX A

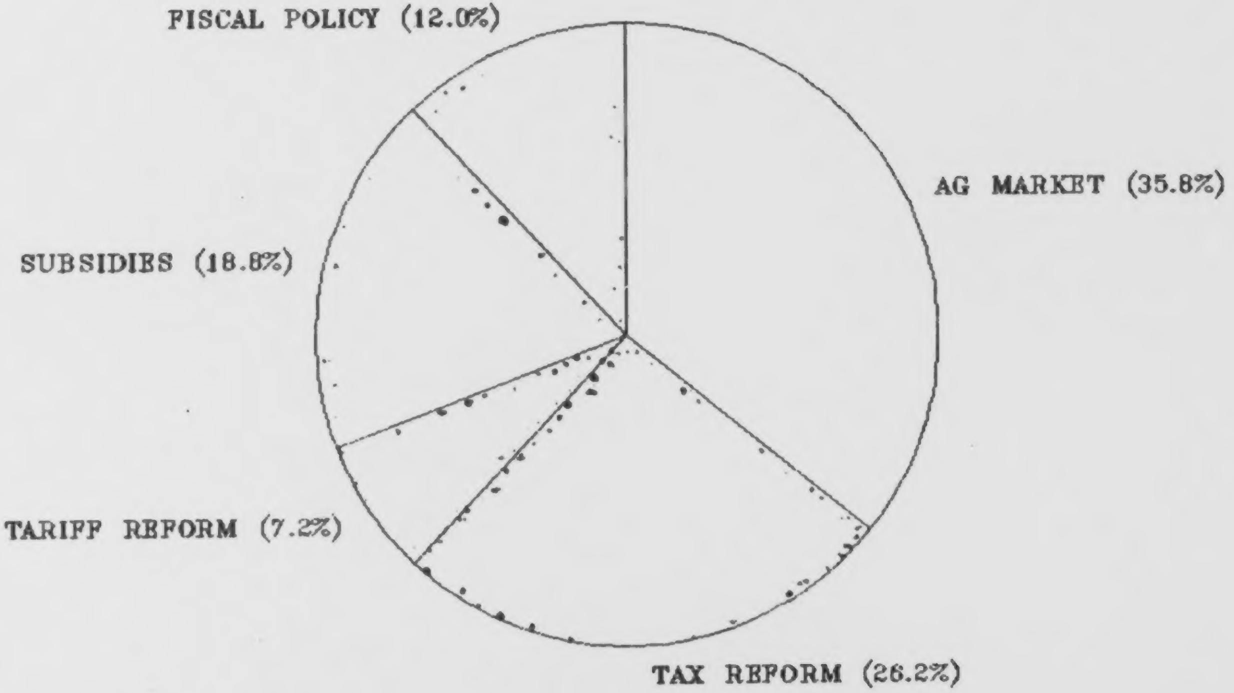
THE FY 85 AEPRP:

A GRAPHICAL PRESENTATION

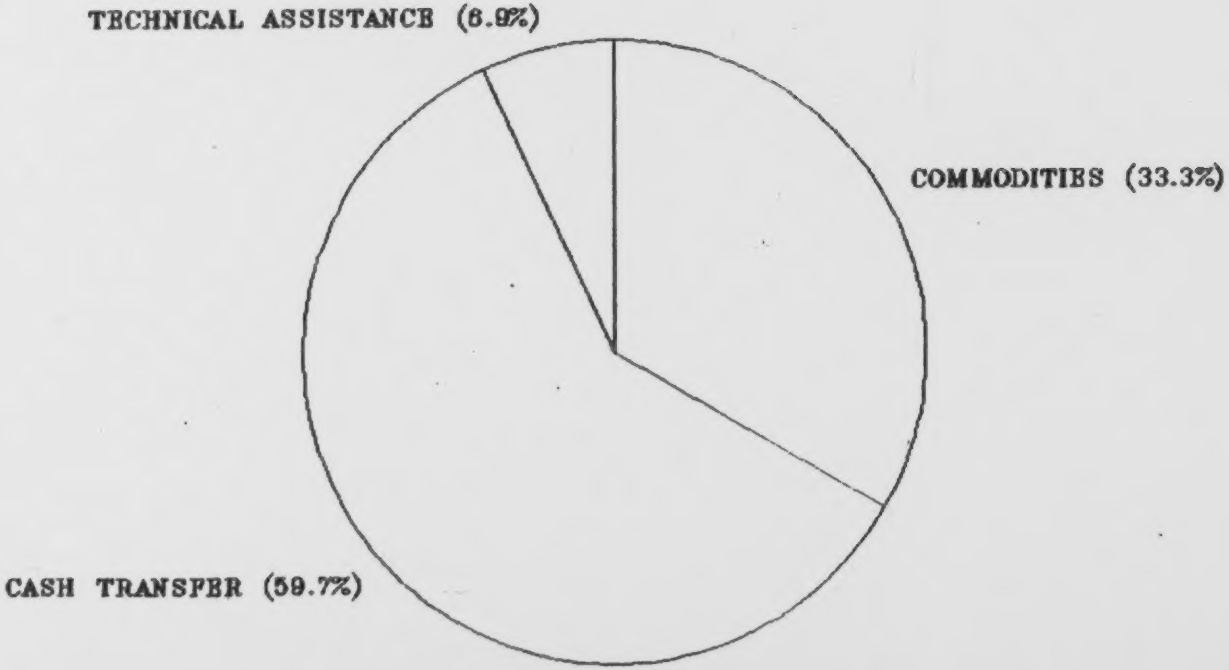
FY85 AEPRP: RECIPIENTS



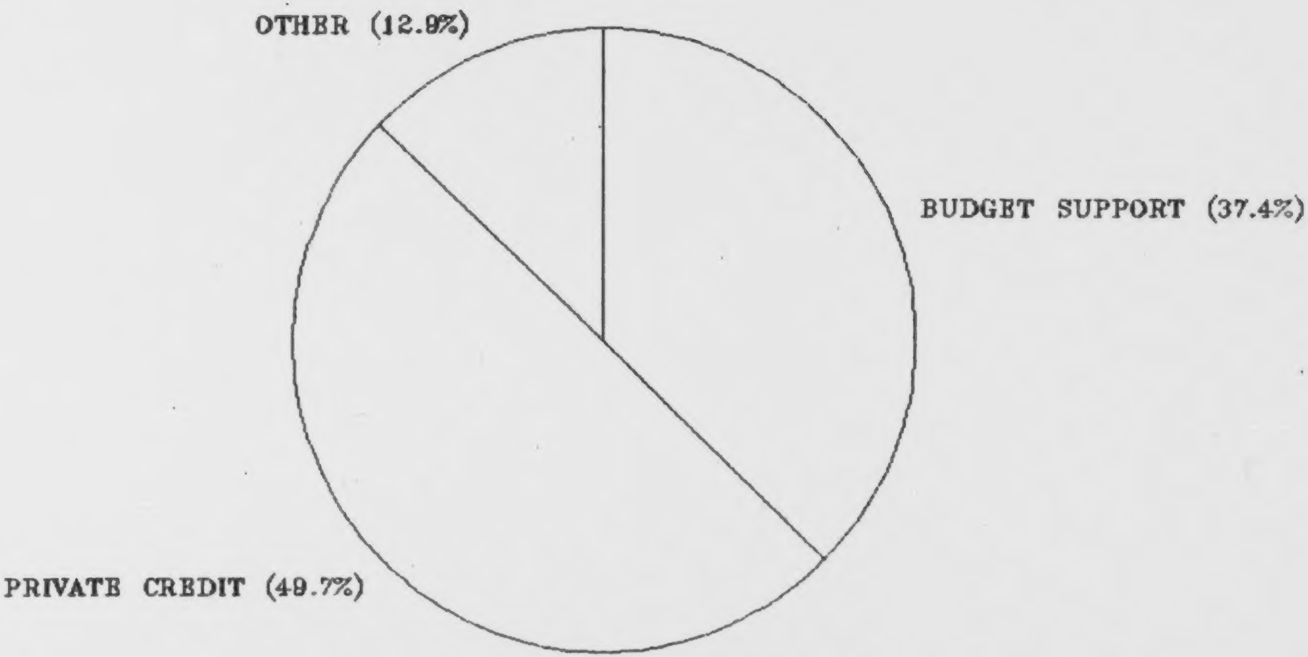
FY85 AEPRP: POLICY CHANGES SUPPORTED



FY85 AEPRP: TYPES OF ASSISTANCE



FY85 AEPRP: USES OF LOCAL CURRENCY



Responses of M. Peter McPherson to questions asked by Senator Helms

COERCION ASSOCIATED WITH THE CHINESE POPULATION PROGRAM

Senator Helms:	As you know, Congress has appropriated $239 million for worldwide population control in the current fiscal year. It has also placed certain restrictions on this money so as not to support coercive methods of population control. In July 1985, the House of Representatives adopted the following statement: "The Government of the People's Republic of China has systematically employed coercive abortion and coercive sterilization as a means of enforcing that Government's 'one-child-per-couple' policy. The rigid application of the 'one child' policy has also led to large-scale infanticide. The Congress condemns these practices as crimes against humanity and calls upon the Government of the People's Republic of China to cease these human rights abuses." Do you agree with this House declaration as of July 1985?
Answer:	AID conducted an internal investigation of the Chinese population program in 1985 to review the evidence concerning coercive family planning practices. Evidence from a variety of sources led us to conclude that the one-child-per-family policy had led to coercion in the Chinese family planning program. On the basis of these findings AID withheld $10 million of the 1985 contribution to the UNFPA, an amount equal to the assistance UNFPA gives each year in support of the Chinese program. On September 25, 1985, I determined that the Kemp/Inouye/Helms Amendment was

applicable to UNFPA because UNFPA participated in the management of a program of coercive abortion and involuntary sterilization as a result of the assistance UNFPA provided to the population program of China. AID policy firmly opposes coercion in family planning programs and we have been very concerned about abuses in the Chinese family planning program.

CHANGE IN THE CHINESE POPULATION PROGRAM

Senator Helms: Have there been any significant changes in the one-child China policy since this House declaration in July 1985?

Answer: The Chinese continue a policy of one-child-per-family for most of its population. We are watching the situation closely.

CHANGE IN THE UNFPA PROGRAM IN CHINA

Senator Helms: Has there been any significant change in the support provided the China population control program by the United Nations Fund for Population Activities since September 1985.

Answer: None that I am aware of.

AID FUNDING FOR UNFPA IN FY 1986

Senator Helms: Will AID provide assistance to UNFPA during the current fiscal year?

Answer: The Amendment you introduced to the FY 1986 Appropriations Act prohibits A.I.D. assistance to an organization which supports or participates in the management of a program of coercive abortion or involuntary sterilization. As I have just mentioned, on September 25, 1985, I determined that this restriction was applicable to UNFPA because of the nature of the assistance UNFPA provided to the population program of China. Based on the text of the Kemp/Inouye/Helms amendment, and its legislative history, UNFPFA would be eligible for assistance if it were to withdraw from participation in the management of a program of coercive abortion and involuntary sterilization and if it were to cease supporting, in any way, a program of coercive abortion and involuntary sterilization. If UNFPA takes such action, A.I.D. would be prepared to consider providing assistance to UNFPA in fiscal year 1986.

AID INTERPRETATION OF KEMP/INOUYE/HELMS AMENDMENT

Senator Helms: Congressman Kemp and I sponsored, in major part, the following restrictive language in current law on expenditures of population control funds:

"Provided, That none of the funds made available in this Act nor any unobligated balances from prior appropriations may be made available to any organization or program which, as determined by the President of the United States, supports or participates in the management of a program of coercive abortion or involuntary sterilization."

Both Congressman Kemp and I made statements on the purpose of this language which appeared in the Congressional Record. The gist of our statements was that no U.S. population control money can be used by any organization or program which, as determined by the President, supports a program of coercive abortion or involuntary sterilization or participates in the management of such a program. Do you have any reason to disagree in any way with our statements on this law?

Answer: The statements made by you and Congressman Kemp which are part of the legislative history of your amendment underscored the two facets of the provision, namely that no population assistance may be extended to any organization or program which 1) supports a program of coercive abortion or involuntary sterilization or 2) participates in the management of a program of coercive abortion or involuntary sterilization.

AID will respect the full legislative history of the Kemp/Inouye/Helms amendment in its application of the provision.

BANGLADESH VOLUNTARY STERILIZATION PROGRAM

Senator Helms: Section 104(f)(2) of the Foreign Assistance Act provides in part: "None of the funds made available to carry out this part may be used . . . to coerce or provide any financial incentive to any person to undergo sterilizations." Yet according to your letter to me of April 11, 1986, U.S. population control funds are being used in Bangladesh to pay women who are usually extremely poor, to undergo sterilizations. Specifically, you stated that these sterilization payments are for three things: transportation, food while away from home, and lost wages. An unsigned memorandum accompanying your letter argues at length that these sterilization payments are not financial incentives prohibited by section 104(f)(2). Do you personally agree that these financial payments to poor women in Bangladesh are not prohibited by section 104(f)(2)? If so, how do you explain the absolute terms of the statute barring "any financial incentive to any person"? How do you explain the remarks of the House sponsor, Congressman Findley? He said: "My language would prohibit clearly involuntary sterilization. It would also prohibit payments, any kind of financial incentive, to any person to participate in a sterilization program." (Congressional Record, May 12, 1977, p. H4359). What in the text of the statute or its legislative history supports your position? Isn't payment of lost wages by itself, especially where the women have no regular employment, a financial incentive? In what other countries have similar payments been made? Will AID cease making such payments?

Answer: If a person chooses voluntarily to be sterilized, I believe that payment to the person to cover the costs of travel to a medical facility where the surgical procedure can be performed safely, food while there, and absence from work or essential household duties during a reasonable period of convalescence from the surgery is not a financial incentive.

Section 104(f)(2) of the Foreign Assistance Act of 1961, as amended (the FAA), prohibits the use of assistance funds to pay "any financial incentive." Congressman Findley stated during debate on this provision that it prohibits "payments, any kind of financial incentive, to any person to participate in a sterilization program." His phrase "any financial incentive" defines the payment which is prohibited. It is the same restriction as is in section 104(f).

This language restricting financial incentives does not prohibit payment of the costs associated with sterilization as a surgical procedure--extra costs not accompanying most other methods of contraception. Such extra costs can act as a barrier to a poor person's choosing to be sterilized because of lack of resources. The objective of the payments made by A.I.D. is to eliminate these cost barriers to enable a poor person to consider the various potential choices of family planning methods on an equal basis. The small amount paid is calculated to accomplish that objective, not to provide a financial incentive for any person to choose sterilization instead of other methods of family planning.

The position I have set forth above is consistent with the restriction in section 104(f) of the FAA, was developed in consultation with Congress, and has been the basis for implementation of A.I.D.'s population program for several years with the knowledge of Congress.

For example, in 1977 at the time of the debate on what is now section 104(f)(2), A.I.D. was developing guidelines to ensure that assistance would be provided for sterilization only on a voluntary basis and that United States funds would not be used for incentive payments. Congressman Bingham referred to the draft guidelines which had been provided to him and stated, in effect, that they "would simply be put into the statute by the substitute offered by the gentleman from Illinois," (Congressman Findley) (Cong. Rec. H4360, May 12, 1977). Congressman Zablocki reassured the House that:

> [W]e will carefully review and follow-up this program to insure that AID does not change its policy with respect to the use of funds for involuntary sterilization programs. If we find that the agency should use such funds, I can assure the gentleman from Missouri (Mr. Young) that we will take care of it in the next go round." (Cong. Rec. H4362, May 12, 1977.)

Approximately one month later, Senator Eagleton introduced an identical amendment in the Senate. By that time, the guidelines had been finalized. They stated in part as follows:

> C. Incentive Payments. -- No A.I.D. funds can be used to pay potential acceptors of sterilization to induce their acceptance of VS." (Id. at 9827.)

During debate, Senator Humphrey stated:

> Mr. President, I ask unanimous consent that a communication I received today from the Department of State, A.I.D. agency, concerning voluntary sterilization be made a part of the Record.
>
> I also ask that the A.I.D. policy guidelines on voluntary sterilization be made part of the Record. These two communications refer to the Eagleton amendment and its application. (Cong. Rec. S9825), June 15, 1977.)

The policy statement, which was endorsed by members of both the House and the Senate, did not prohibit payments which cover the additional costs of sterilization because it is a surgical procedure. It prohibited payments which induce acceptance or serve as an incentive in the nature of a financial reward to the potential acceptor.

The following year, Sander Levin, then Assistant Administrator for the Development Support Bureau, testified before the Select Committee on Population of the House of Representatives on May 4, 1978. The following statements are recorded at page 150:

> "Mr. Scheuer: Excuse me. Are we telling them [foreign countries] that they can't use U.S. dollars as part of the incentive.
>
> Mr. Levin: We are saying A.I.D. money will not be used for any payment that, in essence, represents an incentive. Now, A.I.D. money can be used to cover certain specified out-of-pocket costs and can be used for health-related purposes. For example, AID money can be used to provide clean clothing after a surgical procedure. Transportation is another example of an out-of-pocket cost which can be covered. But there can be no payment to the acceptor, Mr. Scheuer, that uses U.S. money for an incentive."

The distinction between payments for extra costs related to sterilization as a surgical procedure, on the one hand, and payment of an incentive was more fully described in the A.I.D. Policy Determination No.3 (Guidelines on Voluntary Sterilization) which are incorporated in A.I.D.'s September 1982 Policy Paper on Population Assistance :

> Further, A.I.D. support generally cannot be provided to VS [voluntary sterilization] services which include incentive payments paid to potential acceptors. For example, a VS program supported by A.I.D. cannot be supplemented with acceptor incentives to induce acceptance of sterilization services. Determination of what constitutes an incentive must be made locally based on thorough knowledge of social and economic circumstances of potential acceptors. In general, recompense to acceptors for legitimate, extra expenses related to VS program services such as transportation, food during confinement, medicines, surgically related garments and dressings and the value of lost work are not considered incentive payments and are eligible for A.I.D. support. It should be emphasized that these payments must be of a reasonable nature and aimed at making VS services equally available at the same cost as other contraceptive services. For example, payment for lost work must correspond to a reasonable estimate of the value of lost labor over a reasonable duration of convalescence."

A.I.D. has implemented its population program, with the knowledge of Congress, in accordance with the Population Policy Statement. In fact, Title II of the 1985 Continuing Resolution (Public Law 98-473) stated, under the heading "Population Development Assistance":

> "It is further the sense of the House of Representatives that United States population assistance shall be administered in accordance with and faithful to these laws [including section 104 of the FAA] as interpreted by AID's 1982 'Policy Paper: Population Assistance.'"

Some form of compensation payments to facilitate access to family planning services is made in Sri Lanka, Nepal and Thailand. A.I.D. will continue to finance such payments because they comply with law and are important elements of equity in a population assistance program. Of course, A.I.D. also will continue to monitor regularly programs which receive such support to ensure that amounts paid are calculated to achieve the limited objective described above and do not become a financial incentive.

Responses of M. Peter McPherson to questions asked by Senator Zorinsky

AID's ACCOUNTING SYSTEM

Senator Zorinsky: Does AID have a uniform, computerized accounting system for its program? If not, why not?

Answer: AID has uniform accounting policies and procedures, and is in the process of implementing a new automated on-line accounting system in AID/Washington to handle Washington accounting as well as accept summary data from our missions and prepare all consolidated reports required by central agencies. This system has been developed by Electronic Data Systems at a cost of approximately $9.5 million. AID also has an automated accounting system which is being implemented in all our large and medium sized missions overseas, wherever it is cost effective. This mission system provides summary data to our overall system maintained in Washington.

PROJECT ACCOUNTING SYSTEM

Senator Zorinsky: For a number of years AID has been implementing a computer system to track its program spending, project by project, and function by function. What is the status of that computerized effort? How well, in your judgement, has it worked?

-- How much has this program cost to date?

Answer: AID has maintained a Project Accounting and Information System (PAIS) for several years which tracks obligations and expenditures for AID projects at a summary level. Periodic modifications have been made to this system over the years based on the needs of the Agency, requirements of Congress and improvements in computer capability.

Since the PAIS has been around for more than 20 years, it is not possible to determine the cost of the original system and later modifications.

AID's CURRENT ACCOUNTING SYSTEMS

Senator Zorinsky:	Are you satisfied with AID's present accounting system? Have you held discussions with AID's Inspector General, or with other officials, about ways to improve it?
Answer:	We are quite happy with our new automated improvements and changes. This new system was designed to replace approximately 25 older systems as well as handle new legislative requirements, changes in Treasury (and overseas, State Department disbursing) regulations and OMB/Executive orders. The new system also benefits from changes in hardware and software which allow us to automate and improve functions which weren't possible earlier. This new system was developed under a fixed-price contract which did limit us somewhat from making retroactive changes to the contractually accepted detail design. Changes in requirements since that time are currently being designed and implemented. The Inspector General's office has provided us with comments about our "old" systems over the years. During development of the new system, we held discussions with representatives of both the IG and

the General Accounting Office. During the early days, both parties came to AID's bi-weekly meetings with the Contractor until each felt they could no longer continue. Copies of the Requirements Study and the General Design were made available to them for comment.

AID MEETS OMB AND GAO REQUIREMENTS

Senator Zorinsky: Does AID follow established accounting procedures and criteria similar to those used by OMB and the GAO? If not, why not?

Answer: We believe our accounting system does follow the general requirements set forth in GAO Title 2 and the various OMB Circulars, etc. Again, as there have been some changes in Title 2 since we developed the design for the new system, and as both the OMB and the Treasury Department have been very active during the last few years, we are correcting any identified functions which are not in complete conformance because of recent changes.

COORDINATION BETWEEN ACCOUNTING SYSTEMS

Senator Zorinsky: I have received allegations that AID is incapable of audit, among other reasons, because of a cumbersome computer system which involves 50 or so different computer systems and no coordination among them. What is your response to this allegation?

-- Is it your contention that every dollar spent by AID can be traced in full, and audited and accounted for? If not, why not?

Answer: I don't know from where these allegations have come. First, AID's system is auditable as proven by the many reports issued by both our IG and the GAO over the years. Overseas, AID has over 60 missions, each of which is run in accordance with the Agency directives as set forth in AID Handbooks and the Missions Controller's Guidebook.

As AID has decentralized much of its accounting responsibility to the mission, with only summary data reported to Washington, this has sometimes been misinterpreted as a fallacy in our accounting system.

Every dollar expended by the Agency can be traced, audited and accounted for; that is, from the time dollars are apportioned to the Agency by OMB through the time payments are issued. Depending on the type of program, we can identify these payments to projects or operating costs through vouchers and other organizations with which we deal. For selected programs, such as some grants and cash transfers, our accounting stops with disbursements.

CASH TRANSFERS FOR NON-MILITARY AID

Senator Zorinsky: Mr. McPherson, what percentage of our non-military foreign aid budget goes for cash transfers?

Answer: U.S. non-military foreign aid consists of Development Assistance, Multilateral Assistance, Economic Support Funds, PL 480, Peace Corps, Narcotics, other bilateral economic assistance and contributions to multilateral organizations. Cash transfers are, however, made only from the ESF account. Approximately 62 percent of FY 1986 ESF new budget authority (NBA) will be provided as cash transfers, with nearly all of this going to Israel and Egypt, the base rights countries, and Central America. Specifically, 36 percent of ESF appropriated in FY 1986 ($1,258 million) goes as cash transfers to Israel and Egypt in support of the Middle East peace process, with more than 32 percent of the total FY 1986 ESF appropriation going to Israel alone. Another 9 percent of ESF goes as cash transfers to the base rights countries, and finally, 11 percent goes as cash transfers to Central American countries in support of the National Bipartisan Commission recommendations (the "Kissinger Initiative"). The balance goes to countries whose immediate needs of foreign exchange are crucial for their economic and political stability.

An additional $1 billion in ESF, which will be obligated in FY 1986 from funds provided under the FY 1985 Mideast Supplemental, will go to Israel (75 percent) and Egypt (25 percent) as cash transfers.

Senator Zorinsky: Have cash transfers increased over the last five years, absolutely and as a percentage? Will there be increases in the future?

Answer: The absolute level of cash transfers has increased by 73 percent between FY 1982 and FY 1986, not including funds provided under the supplemental appropriations. As a percentage of annual, new budget authority (NBA) for ESF cash transfers have increased only from 50 to 62 percent during the same period. Note that the Congress itself determines that a significant portion of our funds will be provided in the form of cash transfers. Some 57 percent of cash transfers from FY 1986 NBA for ESF were provided as a result of legislative requirements (Israel, Egypt, Ecuador).

In our budget request for FY 1987, new funding for cash transfers was requested at approximately the same level in FY 1987 as in FY 1986, again with nearly half of this for Israel.

Senator Zorinsky: What is the purpose or justification for giving aid in the form of cash transfers?

Answer: Well over half of the cash transfers provided from FY 1986 funds were the result of Congressional requirements mandating the mode of assistance. In the case of both Israel and Egypt, Congress has specified the amounts to be provided as a cash transfer. These two countries alone will receive some 57 percent of all cash transfers provided from FY 1986 funds, with 52 percent going to Israel alone. Another 14 percent goes to Turkey, the Philippines and Portugal -- which have base rights agreements with the United States -- in order to assure we maintain our strategic access to these areas.

In the case of other countries which are experiencing economic instability, and where U.S. security interests are affected, cash transfers are the primary means of balance-of-payments support for those countries. Many, if not most, aid recipients have debt servicing problems and foreign exchange cash flow problems which require careful management. Cash transfers are the most efficient means of introducing foreign exchange into an economy. They enable timed infusions of specified amounts of dollars into these economies which help to create economic, and thus, political stability, by maintaining a controlled and rational flow of foreign exchange throughout the year. The timing of disbursements will consider, among other things, the need for securing/maintaining a realistic exchange rate, the need for the country -- including private sector entities -- to continue to meet foreign debt obligations, and the need to maintain adequate reserve levels.

A.I.D.'s willingness to disburse, in many cases, is also based upon the recipient country's responsiveness in effecting reforms designed to improve its own economic performance. In this respect, cash transfers provide important leverage for structural change.

Neither project assistance nor commodity import programs provide the flexibility for foreign exchange management, or the leverage for policy reform that the cash transfer offers.

For a more detailed response to this question, refer to your question below inquiring about the feasibility of providing goods such as U.S.-made products or wheat as opposed to cash.

CASH TRANSFERS - EQUIVALENT PURCHASES

Senator Zorinsky: Are cash transfers conditioned on buying an equivalent amount of goods or services in the U.S.? Should they be? If not, why not?

Answer: Cash transfers are given for a variety of reasons to different countries. Whether a cash transfer is conditioned on buying an equivalent amount of goods or services in the United States depends on the purposes for the cash transfer and the security interests that are being addressed.

The requirement that an equivalent amount of goods or services be purchased from the United States is in force in Israel and Egypt and in most of the Latin American and Caribbean countries that receive cash transfers. This accounts for more than 70 percent of our cash transfer resources. It includes Costa Rica, Honduras, Guatemala, Ecuador, the Dominican Republic, Jamaica, and, in a modified form, El Salvador.*

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* In El Salvador, imports from other Central American Common Market countries (excluding Nicaragua) are also eligible; so is oil imported from Code 941 (limited free world) countries. On the other hand, the U.S. cash transfer must be placed in a separate central bank account to facilitate monitoring.

In the case of the "base rights" countries, the Philippines, Turkey and Portugal, the cash transfers are regarded by these governments (though not by the U.S. Government) as partial payment for U.S. military base or access rights. We recognize the importance of securing U.S. access to these strategic areas. Similarly in Egypt, the cash transfer is regarded as part of the Camp David peace process. There would likely be strong resistance on the part of these countries to imposition of a requirement to document imports from the United States equivalent to their transfers.

In the African countries, there is no requirement to show equivalent levels of imports from the United States. In Africa, recent cash transfer program have been related to structural adjustment and conditioned heavily on policy reform. This, together with the fact that trading patterns make it difficult for African countries to purchase many needed imports from the United States, accounts for the nature of this assistance.

CASH TRANSFERS: PROCUREMENT

Senator Zorinsky: Do we indirectly help nations like Iran and Libya, or Soviet Bloc nations, by enabling cash transfer recipients to buy goods there, or nations like Argentina by enabling recipients to buy their wheat?

Answer: With regard to the purchase of goods from Iran and Libya, there does not appear to be a basis for concern as illustrated by the data in the table below. Import data published in the International Monetary Fund's Direction of Trade Statistics show that the major recipients of U.S. cash transfers, including Israel, Egypt, the Central American and Caribbean countries, import practically nothing from Libya and Iran.

Imports from Soviet Bloc countries are significant only in the case of Egypt, where, in 1985, this constituted 7 percent of total Egyptian imports. However, Egypt has special bilateral clearing arrangements with the countries of the Soviet Bloc and generally is not using its hard currency earnings to pay for its imports from these countries. Imports from Soviet Bloc countries are negligible in the case of the other recipients of cash transfers.

Imports from Argentina are notable only in the case of Israel and Egypt, though even in these cases they constitute a minor proportion of total imports. For example, in 1984, Israel imported $41.4 million worth of goods from Argentina (0.5 percent of its total imports), while Egypt's imports were $85.5 million (0.6 percent of total imports). The Central American countries imported relatively small amounts ($1-$2.6 million).

It should be noted that even when dollars are spent in third countries, most dollars will eventually be spent in the United States on U.S.-produced goods and services.

1984 Imports from Libya, Iran, the Soviet Bloc and Argentina of Five Major Recipients of Cash Transfers

	From Libya		From Iran		From Soviet Bloc Nations		From Argentina	
	In Mills of US $	% of Total Imports	In Mills of US $	% of Total Imports	In Mills of US $	% of Total Imports	In Mills of US $	% of Total Imports
Israel	0*	**	0*	**	7.8	**	41.4	**
Egypt	0.3	**	0*	**	519.1	3.55	85.6	**
C. Rica	0*	**	0*	**	2.2	**	2.2	**
El Salv.	0*	**	0*	**	0.3	**	2.6	**
Honduras	0*	**	0*	**	2.1	**	1.2	**

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* Zero or too small for recording.

** Less than 1 percent.

Source: IMF, Direction of Trade Statistics, 1985 Yearbook

CASH TRANSFERS - U.S. PRODUCTS

Senator Zorinsky: If this is true, then why give the recipient cash? Why not U.S. made products or wheat grown in the United States?

Answer: As discussed above, it is highly unlikely that funds provided under U.S. cash transfers are used to purchase goods in Iran, Libya or Soviet-bloc nations.

However, the subsidiary question is an important concern to A.I.D.

Apart from the 14 percent of cash transfers used to secure military base access in certain countries, cash transfers are provided to help alleviate adverse balance-of-payments situations, budgetary deficiencies and/or a critical shortage of external resources, and often are justified in part by security considerations. As a form of program assistance, cash transfers have several advantages over other modes of program assistance. These include the following:

A. Facilitating Effective Foreign Exchange Management

Developing countries suffering financial instability must maintain a delicate balance in management of foreign exchange to avoid default on foreign debts and to meet crucial import needs. Using cash transfers, the United States can play a key role in economic policy through the timely injection of funds. In Central America, as part of the economic stabilization process, we have avoided several defaults through the timing of releases of ESF to Central American central banks.

Cash transfers provide immediate availability of funds urgently required for balance-of-payments support. Importers can be provided immediate access to urgently needed foreign exchange for importation of essential raw materials and intermediate goods. Thus, balance-of-payments assistance can be provided much faster than in the case of a Commodity Import Financing Program (CIP).

B. Legitimizing our Influence on Policies Affecting all Foreign Exchange:

To achieve economic stability and resume growth, countries must use all of their foreign exchange effectively and efficiently - not just that portion of the total provided by A.I.D. (typically 5-10 percent of the total). In contrast with the Commodity Import Program which focuses attention on detailed monitoring of only the funds A.I.D. provides, the cash transfer approach allows A.I.D. a legitimate voice in policies and management of all official foreign exchange since our funds, once disbursed, become an inseparable part of those holdings.

C. Maximum Leverage for Encouraging Policy Reform:

Cash transfers provide greater leverage in obtaining macroeconomic policy reform than other modes of assistance. Policies affecting the allocation, mobilization, and distribution of economic resources are major determinants of growth and development and often without compatible reforms, even large amounts of foreign aid cannot succeed in promoting economic and political stability and self-sustaining development.

In view of the strong preference that host countries have for the flexibility of cash transfers to meet peak import demands, debt payments and IMF standby requirements, the cash transfer is more effective than a CIP or project assistance in obtaining the cooperation of host governments to implement policy reforms that the United States considers most important from the viewpoint of achieving the objectives of a stabilization program and setting the basis for long-term growth. Such reforms may include reducing budget deficits and the amount of credit available to the public sector, adjusting the exchange rate, eliminating price and exchange controls and revising the tax or tariff structure to promote economic growth.

D. Considerations Affecting Food and Commodity Financing:

Under certain circumstances A.I.D. does assist foreign countries with their balance-of-payments problems by providing U.S.-made products through a Commodity Import Program (CIP) or by providing food grown in the United States under the P.L. 480 Title I program or through a CIP, although these modes of assistance do not have the advantages of the cash transfer described above.

The CIP provides much less flexibility to the host government or central bank than a cash transfer, and is therefore much less useful for balance-of-payments support. For example, the foreign exchange provided by the CIP cannot be used to pay oil or debt serving bills falling due in months of extreme shortage of foreign exchange.

In some countries (e.g., in Africa), it may be difficult to use a CIP tied to United

States procurement to provide the amount of balance-of-payments assistance needed since it may not be economical to import bulk commodities from the United States.

The main instrument used by the United States to channel food assistance to developing countries is the P.L. 480 Food for Peace program. In FYs 1985 and 1986, the United States provided approximately $2,052 million and $1,740 million, respectively, in P.L. 480 Title I/III food assistance (including transport) to the developing countries. All major recipients of United States balance-of-payments assistance that also have unmet grain import requirements benefit from the P.L. 480 program.

While the P.L. 480 programs perform a very useful function, they cannot take the place of cash transfers. Most recipients of cash transfers have a balance-of-payments gap that is much larger than the grain deficit that could be filled by United States grain shipments. Moreover, in determining the amount of wheat or other grains that can be shipped to developing countries, account must be taken not only of the grain deficiency in that country (and of P.L. 480 program availabilities), but also whether a policy of promoting grain imports would discourage domestic grain production or investment in the country's food production capacity.

Finally, our ability to insist that countries use our assistance for the purchase of agricultural commodities is limited by our participation in the United Nations Food and Agriculture Organization's (FAO's) Committee on Surplus Disposal which regulates "dumping" of agricultural products. Limits exist both on tying assistance levels to the purchase of the donor country's agricultural products, and on the extent to which the export of such production can be financed by concessional aid. Requirements that funds be tied to the purchase of a commodity such as United States wheat may, again, result in funds not being used until the country is able to justify them within the limits of the Committee on Surplus Disposal.

MAJOR TRADING PARTNERS

Senator Zorinsky: Who are the major trading partners of Israel and Egypt?

Answer: Israel's largest trading partner is the United States, which accounted for 33 percent of exports in 1985 and 18 percent of Israel's imports. Other major trading partners were the Federal Republic of Germany and the United Kingdom.

Egypt's major trading partners were the European Economic Community (EEC) countries, which accounted for 35 percent of Egypt's imports in 1985 and absorbed 37 percent of Egypt's exports. Other major trading partners were the United States (20 percent and 16 percent, respectively) and Soviet Bloc countries (7 percent and 16 percent, respectively).

CASH TRANSFERS AND THE BALANCE OF PAYMENTS

Senator Zorinsky: Mr. McPherson, these cash transfers are often justified in terms of helping certain countries with their balance-of-payments problems. What are we - with the world's largest balance-of-payments problem - doing helping out other nations in this regard?

Answer: The United States does indeed have a substantial deficit in its balance of trade and also in its current account. Thus, in 1985, the United States trade deficit was $124 billion and its current account deficit $118 billion. To put our cash transfer program in perspective, note that our total cash transfer program in FY 1985 came to $3.6 billion, of which $1.95 billion went to Israel (which includes funds from a supplemental appropriation). Cash transfers to all other countries came to only $1.7 billion, equal to 1.4 percent of our total trade deficit. It should also be noted that the United States trade deficit was more than compensated by net inflows on capital account as foreign residents, businesses, and financial institutions invested heavily in the United States. The result was an increase in our net international reserves, up from $32.2 billion in 1983 to $32.8 billion in 1984 and $41.8 billion in November 1985.

While the rationale for providing balance-of-payments assistance varies from country to country, our main reasons include political commitments to the maintenance of peace and security (Middle East); assistance to countries that provide military base rights, refueling stations, or access to key facilities; assistance to preserve economic and political stability in countries which the United States has a major political or strategic interest; promotion of democratic processes and economic reform; and humanitarian considerations. In most cases, our balance-of-payments assistance is designed to enable countries facing serious macroeconomic difficulties to come to grips with their economic and political problems. Our own national interest as the leader of the free world and as a major participant in international trade and finance makes such assistance necessary.

CASH TRANSFERS - PURCHASE CREDITS

Senator Zorinsky: Couldn't both objectives be served by requiring that cash transfers be replaced by a program that gives an equivalent amount of purchase credits for manufactured goods or agricultural commodities from the United States? This would help United States exporters yet it would free up scarce foreign exchange of other nations, thus helping their balance-of-payments as well.

Answer: As discussed more thoroughly in the answer to your question "why not give U.S.-made products or wheat grown in the U.S.," the use of the cash transfer mode of assistance greatly enhances our ability to provide immediate balance-of-payments assistance to countries that are in urgent need of such assistance to effectively manage their debt, import and reserve level requirements, and which are of strategic importance to the United States. Cash transfers also provide maximum leverage for encouraging policy reform and sound foreign exchange management. They also are an efficient means of discharging commitments made for political/security reasons (e.g., Israel, Egypt, base rights countries). Where these factors are not overriding concerns, we encourage the use of Commodity Import Programs (CIPs) to achieve the objectives you describe in your question.

In some countries such as Egypt, we provide balance-of-payments assistance through cash transfer, commodity import and P.L. 480 Title I programs in order to achieve multiple objectives. The cash transfer provides foreign exchange quickly and allows us to encourage macro-economic policy reform, the CIP fosters trade and the P.L. 480 Title I program provides United States food and at the same time allows us to engage in agriculture sector policy dialogue through joint agreement with the Egyptians on self-help measures to be undertaken during the period food is provided.

RATIONALE FOR CASH TRANSFER ALLOCATION

Senator Zorinsky: With respect to your requests for cash transfers under Economic Support Funding, how do you arrive at the numbers...is there a breakdown of what the recipient countries have asked for?

If they have given you a list of needs, have you compared those needs with the availability of goods and services in the U.S.A. to satisfy those needs?

Answer: Well over half of the cash transfers provided from FY 1986 funds were the result of Congressional requirements mandating the mode of assistance. In the case of both Israel and Egypt, Congress has specified the amounts to be provided as a cash transfer. These two countries alone will receive some 57 percent of all cash transfers provided from FY 1986 funds, with 52 percent going to Israel alone. Another 14 percent goes to Turkey, the Philippines and Portugal -- which have base rights agreements with the United States -- in order to assure we maintain our strategic access to these areas. Thus, there is a "discretionary" programming process covering less than 30 percent of the cash transfers provided with FY 1986 funds.

These "discretionary" cash transfers go to Latin America and the Caribbean, with most of these directed to the Central American/Caribbean region, and to Africa.

The level of ESF assistance to a country is a function of our national interest, including the need to promote economic and political stability and support for United States policies. The overall balance-of-payments gap is considered in this analysis. Where we have discretion with respect to the mix of assistance, A.I.D. - together with other foreign affairs agencies and, in some cases, other donors participating in a Consultative Group - works to determine the extent to which project versus balance-of-payments assistance is required, and in the case of the latter, what is the most appropriate form.

The decision to provide a cash transfer reflects the need both to provide timely and controlled disbursements of dollars to facilitate sound foreign exchange management and to obtain leverage to move the government to undertake needed economic reform to promote economic stabilization and growth. Typically, country needs include debt management, maintaining foreign exchange reserve levels under an IMF standby agreement, and importation of raw materials, manufactured goods, spare parts, food, and petroleum. The extent to which these countries purchase a substantial proportion of their imports from the United States is also a factor. For further information on this point, I refer you to our response to your prior question with respect to whether cash transfers are conditioned on buying an equivalent amount of goods in the United States.

CASH TRANSFER ACCOUNTABILITY

Senator Zorinsky: Could you describe the controls we place on cash transfers? Is there any accountability?

Do you know precisely what the recipient country uses them for...is there a reporting requirement to the United States Government so we know where this money goes?

Answer: Program assistance for economic stabilization purposes achieves its success through the impact of the totality of resources provided to fill a financial gap -- combined with any necessary policy changes. In effect, program assistance provides an infusion of needed resources to strengthen an unstable financial system.

Such assistance cannot really be accounted for in the way funds for a specific project can, because stabilization funds, whether segregated from or commingled with a country's other foreign exchange holdings, are by definition part of a nation's pool of foreign exchange. The basic objective is to assist in overcoming economic instability. The provision of foreign exchange by an outside donor has the effect of freeing up an equivalent amount of foreign exchange from the country's other holdings or sources for whatever purpose is most pressing. No amount of controls over the funds A.I.D. may provide can have any effect on how the funds "freed up" are used. Thus, program assistance funds, whether provided by A.I.D. or the IMF in the form of cash, or provided under an A.I.D. Commodity Import Program, become essentially fungible with the country's other foreign exchange holdings. This is why it is important that A.I.D. focus on the macroeconomic policies that eventually will alleviate a country's financial crisis and how the country manages all of its foreign exchange rather than on how A.I.D.'s small addition to this stock of resources is used.

This basic principle is recognized by the IMF and the World Bank in their respective stabilization and structural adjustment programs which provide cash resources. Success is measured by these organizations and A.I.D. in terms of the improvements in the economic performance of recipient countries, not by tracking the use of the actual funds received. It is the aggregate impact on the overall economic situation (or on United States security interests as well, in the case of United States bilateral assistance) which is of importance.

Indicators of economic performance which are assessed may include balance-of-payments performance, timeliness of payments and levels of payments and levels of foreign debt, improvements in economic growth rates and compliance with macroeconomic conditionality.

Through use of cash transfers significant economic reform measures at the macroeconomic level have been adopted in Jamaica, the Dominican Republic, El Salvador, Costa Rica, Grenada, Ecuador and Bolivia. Major reforms undertaken in recent years by most of these countries include exchange rate adjustments accompanied by the dismantling or substantial relaxation of exchange controls; reduction of budget deficits; the elimination or substantial reduction of controls on prices and interest rates; adjustment of utility rates to permit state enterprises to avoid or reduce operating losses; reduction of import restrictions; and in some cases (e.g., Jamaica, Ecuador and Bolivia) tax or tariff reform.

While successes in adopting the necessary macroeconomic reforms are probably most dramatic in the Latin American and Caribbean region, they are not limited to this hemisphere.

In Africa, A.I.D. established in FY 1985 a new African Economic Policy Reform Program (AEPRP) to encourage and support structural reform designed to set the basis for sustained economic growth. The basic purpose of this program is to reduce government involvement in the economy, to provide incentives to the private sector to stimulate increased economic activity, to liberalize agricultural marketing practices and to stimulate both private domestic and foreign investment. Countries covered by the program so far are Zambia, Rwanda, Mali, Mauritius and Malawi. While it is too early to judge the success of this program, A.I.D. missions are very optimistic with regard to its potential.

Thus the primary measure for determining whether a cash transfer program is successful is whether the economic performance of recipient countries has been improved and, of course, whether the security interests of the United States (Middle East Peace, base rights agreements) are being achieved.

With respect to requirements for use of foreign exchange negotiated as part of our cash transfer agreements, there are two patterns.

In Israel and in most of the Latin American/ Caribbean countries -- which account for most of our cash transfer recipients -- we require an _ex post facto_ demonstration that the country has used at least the amount of United States currency provided by us to purchase eligible exports from the United States.* Specifically, a country is required to demonstrate, with appropriate documentation, that it has procured at least the amount of United States non-military commodities that would equal the amount of United States foreign assistance cash transfers during a given year. Thus, the recipient government has much greater flexibility in managing its foreign exchange flow than under a CIP, and we have much greater leverage in asking for appropriate economic reforms to promote economic stability and growth. In addition, the burden of managing the paper flow connected with the imports does not fall on a shrinking United States staff, while delays in procuring essential goods are avoided.

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*El Salvador is an exception to this rule as it is allowed to use our dollars for importation of goods not only from the United States, but also from other Central American countries (excluding Nicaragua), and in the case of oil, from any Geographic Code 941 countries.

In the case of cash transfers to base rights countries -- Turkey, the Philippines and Portugal (Spain and Greece receive no cash transfers), no compensating United States purchases are required due to the nature of the agreements. In the case of the Philippines, the purpose and nature of the cash transfers were designed to focus primarily on the use of local currency in support of specific development programs because of our interest in maximizing the development impact of these currencies, and the difficulty in associating major policy reform with cash transfer assistance when that assistance is provided in a base rights context. However, our cash transfers have assisted the Philippine Government in meeting conditions and targets associated with an IMF standby agreement, thereby strengthening the economic stabilization process in that country.

In most African countries, we have not required that the countries provide evidence of purchases from the United States in amounts equivalent to their cash transfers. Rather we require that the recipient countries make available an equivalent amount of local currency for specific development programs, and we monitor the use of these amounts. This was done because of the difficulty these countries would have in substantially increasing their United States imports given their trading patterns with European and other countries, and in view of the relatively small amount involved.

Finally, before providing development loans, ESF or P.L. 480 Title I to aid recipients, we review on an annual basis, under Section 620(s) of the Foreign Assistance Act, as amended, the percentage of the recipient or purchasing country's budget which is devoted to military purposes and the degree to which the country is using its foreign exchange or other resources to acquire military equipment.

CASH TRANSFERS FOR HAITI AND THE PHILIPPINES

Senator Zorinsky: How much did the Philippines and Haiti receive in the last five years, or even the last year, in cash transfers? Do we have any record of where this money went? Do you know how it was used?

Answer: We have limited our use of cash transfers to Haiti and the Philippines over the past five years in order to assure that our funds are used to support legitimate development purposes. Thus, Haiti received no cash transfers from the United States during the past five years. In the Philippines, we provided only $92.5 million during FY 1985 and early FY 1986 in conjunction with our base rights agreement. Since the change of government, we have increased our use of the cash transfer with a recent $200 million agreement for budget support signed by Secretary Shultz on June 25 of this year.

In the Philippines, we have required the country to make local currency available in an amount equivalent to the cash transfer, and we have programmed and monitored the use of that local currency for development programs. The cash transfer-local currency mechanism is a crucial element in our carefully negotiated bases agreement with that country, and has been thoroughly vetted with the United States Congress. However, our cash transfers have assisted the Philippine Government in meeting conditions and targets associated with an IMF standby agreement, thereby strengthening the economic stabilization prices in that country.

CONDITIONS ON CASH TRANSFERS

Senator Zorinsky: How do we know whether cash transfer funds have not been used to purchase military goods?

Answer: More than 70 percent of the FY 1986 ESF provided as cash transfers have requirements attached to assure that the recipient country spends an equivalent amount of dollars for non-military imports from the United States.

In all cases where there are cash transfers, whether or not they are accompanied by requirements for equivalent purchases from the United States, before providing development loans, ESF or P.L. 480 Title I to aid recipients, we review on an annual basis, under Section 620(s) of the Foreign Assistance Act, as amended, the percentage of the recipient or purchasing country's budget which is devoted to military purposes and the degree to which the country is using its foreign exchange or other resources to acquire military equipment. The fact that we do provide assistance to a country's balance-of-payments does help the country to free up its own resources for whatever purpose it wants. This, however, is true whether or not the assistance is in the form of a cash transfer or a CIP. The extent to which countries devote resources to the purchase of military equipment is reported annually to Congress.

I should point out that the bulk of our cash transfers go to countries to which the United States is also providing major military assistance, and whose defense we consider strategic to our own security interests. Such countries include Israel, Turkey, Egypt, the Philippines, El Salvador and Honduras. Together, these countries received 81 percent of all cash transfers over the five-year period FY 1982-86.

CASH TRANSFERS - TANGIBLE CREDIT

Senator Zorinsky:	Do the people of the recipient nations have any knowledge that we have provided cash transfers? Do they see any tangible United States connection? Does it serve our foreign policy purposes - at a time when the foreign aid budget may be cut along with everything else - to be using scarce A.I.D. resources in a program for which we get no tangible credit?
Answer:	In those countries where we provide cash transfers, the U.S. Government is often the largest bilateral donor and most important economic ally. The signing of a large cash transfer agreement in these countries is a major news item and usually receives front-page coverage in the major newspapers, complete with photographs of the signing ceremony. The story is usually carried by the electronic media as well which reaches a much broader segment of the population.

With this kind of coverage, it is clear that private sector leaders from business, labor and even from the politically important peasant and local community organizations, are aware of U.S. Government bilateral assistance, including that provided for balance-of-payments support through cash transfers. The best evidence of this is the frequent appeals for foreign exchange made directly to our A.I.D. missions by private investors and importers in the knowledge that the U.S. Government is a major source of foreign exchange. It is our experience that business, labor and local community leaders are fully aware of the nature and magnitude of U.S. Government balance-of-payments assistance and what it means in terms of employment and economic growth.

The purpose of our ESF-financed cash transfer programs is to further United States national interests. Without exception, in each country where we provide cash transfers we also have United States national interest in influencing the private and public leadership of those countries. Cash transfer programs serve this purpose. For example, in El Salvador our cash transfer program was instrumental in allowing us to push for human rights reforms and elections. In other countries, they allow us to bargain for economic reforms designed to contribute to growth and stability. These are the tangible results we obtain from our cash transfer programs. To the extent we have been successful in encouraging such reforms it is evident that we do receive credit for cash transfer programs from relevant host countries leaders which translates into leverage in our pursuit of United States interests.

Responses of M. Peter McPherson to questions asked by Senator Eagleton

BANGLADESH POPULATION PROGRAM: ALLEGED ABUSES AND COERCION

Senator Eagleton: A pamphlet entitled, "Food, Saris and Sterilization, Population Control in Bangladesh," authored by Betsy Hartmann and Hilary Standing raises further concerns about the coercive nature of the Bangladesh population program and USAID's participation in its development...[Specific allegations not repeated but responded to below]...On page 16 of the pamphlet, reference is made to a 1985 position paper developed by the Swedish International Development Authority which expresses concern about the incentive and disincentive system amounting to "indirect coercion."

I would like to have your response to these allegations of coercion in the Bangladesh population program, with specific detail on USAID's role in both the development and implementation of the Bangladesh National Population Policy.

Answer: The following comments are in response to the allegations contained in the Hartman and Standing article entitled, "Food, Saris, and Sterilization: Population Control in Bangladesh":

Donor Concerns About Population Program Performance

Representatives of bilateral and multilateral donors to Bangladesh meet regularly to review population policy issue and program performance. In preparation for the consultative donor group meeting in 1983, the UNFPA prepared a draft paper which discussed the seriousness of the demographic situation in Bangladesh, the prospects for achieving Government of Bangladesh demographic goals and possible steps to be taken to improve program performance. This paper was designed to serve as a basis for discussion between the Government and the donors. AID agreed with the other donors at that time that the serious effects of population growth warranted a commitment to voluntary family planning carried out by an autonomous Population Board.

The United States did not then and would not now ever agree to support a program which included coercive measures as a means of increasing family planning use in Bangladesh as implied by Hartmann and Standing.

Comments by Former UNFPA Representative Holzhausen

The views contained in the letter from Holzhausen to Dr. Nafis Sadik, UNFPA/New York, represent his personal views and do not, in any way, represent UNFPA or AID views on the issue of voluntarism. We and the Bangladesh Government remain, as always, firmly committed to voluntarism in the Bangladesh program.

Reported Program Abuses

The incidents described by Standing and Hartmann--the intervention of the army in the family planning program in northern Mymensingh district in 1983 and the misuse of food aid to encourage sterilization in 1984--did occur but represent rare exceptions to a well-run program.

The Bangladesh Government sterilization program is organized and implemented on voluntary principles, consistent with AID's Policy Determination No. 3 or

PD-3 (Guidelines on Voluntary Sterilization). That policy requires informed consent and ready access to contraceptive methods other than sterilization. It calls for high quality services integrated to the fullest extent possible with other health services, and prohibits incentives to induce acceptance of voluntary sterilization. AID has played a very useful role throughout the development of this sterilization program in providing technical assistance to the Government to ensure that the program observes these principles.

From the inception of the Government's voluntary sterilization program in 1976 until the present, the two incidents cited by Standing and Hartmann are the only cases of violation of the principles of PD-3. Each incident was well publicized in the Bangladesh press and elicited quick action on the part of the Government to end the violations and ensure that they would not recur in the future. In each instance, A.I.D. in Dhaka responded rapidly by investigating the accuracy of the reports, raising the issue with high-level government officials, and temporarily suspending reimbursements for the cited areas. The following describes these violations of PD-3:

(1) Bangladesh Army Involvement in Voluntary Sterilization

In July 1983, AID/Dhaka learned that an Army Ambulance Corps had been requested to assist in the sterilization program in one *thana* (local level administrative division) of Mymensingh District and that this involvement resulted in coercion. Bangladesh newspapers reported forced sterilization in at least one case.

For the two years prior to this incident, A.I.D. staff in Dhaka (including a physician) had been closely monitoring the program and had seen no evidence of coercion. Upon hearing of the Mymensingh allegations, AID staff investigated the report in the field and concluded that an isolated but serious breach of the program standard of voluntary consent had occurred. The AID Mission Director described the incident to the Minister of Health and Population Control and suspended reimbursements for VS for one month for the Mymensingh District. Ministry personnel and the Army were subsequently ordered to terminate all Army involvement in the Government program. There have been no reports since of Army involvement or violations of this kind in the program.

(2) Use of Food Aid to Induce Voluntary Sterilization Acceptance

In early 1985, A.I.D. learned of incidents in 1984 in several Bangladesh districts in which food aid or extra money was allegedly used to attract sterilization clients. Again, AID staff visited the areas and confirmed some incidents. The Acting Mission Director met with the Secretary of the Ministry of Health and Population Control and in the strongest terms reiterated the PD-3 guidelines under which U.S. assistance can be given. He then requested that a Government-wide directive be issued immediately to officials of relevant Ministries and to local government officials to prohibit the distribution of food or any other items as incentives for VS acceptance. The Ministry of Health and Population Control issued the directive at once.

The Acting Mission Director informed the Ministry by letter that AID would continue to monitor this issue actively by adding questions to the quarterly survey of sterilization acceptors for the April-June 1985 period, regularly conducted by the Mission, concerning whether food and/or other items (above and beyond the approved reimbursement in cash and in kind) were promised to or actually received by VS acceptors. Should the findings of future quarterly surveys reveal abuses, the Minister was informed that AID policy would require that the Mission reduce payments against claims for reimbursement by the Government. A.I.D. did reduce its reimbursements to the Government for October 1984 through March 1985, the period in which abuses had occurred.

The Acting Mission Director also met with the Joint Secretary, Ministry of Relief and Rehabilitation, which is directly responsible for food aid, and reiterated U.S. concerns in the strongest terms as above. No subsequent abuses have been reported.

Swedish International Development Agency (SIDA) Position Paper

This paper expresses concern that the voluntary sterilization reimbursement system may lead to coercion and undermine the principle of free and informed choice. Without citing supporting empirical data, the paper asserts that "unacceptable pressure is being exerted on potential acceptors and many amount to indirect coercion." This paper raises issues of concern to all donors. However, data obtained both from surveys and qualitative in-depth studies do not support that assertion.

In fact, A.I.D. has recently conducted a comprehensive investigation of the voluntary nature of the sterilization program. The results found compelling evidence that the VS program is not coercive.

Among the principle findings are the following:

. Both men and women who have been sterilized are virtually unanimous in expressing satisfaction with the procedure; satisfaction rates are near 98 percent. The main reason cited for this high level of satisfaction is freedom from future pregnancies.

. Over 50 percent of VS acceptors have already recommended the operation to others; another 96 percent of acceptors stated their intention to do so in the future.

. Over 90 percent of men and women interviewed in a national survey said that their decision to undergo VS met with a favorable response from family and friends.

. Regret rates are very low, and comparable to those in the U.S.

- The average elapsed time for women making the decision to have a VS is 7 to 12 months. The most recent A.I.D. quarterly evaluation report found that 93 percent of those interviewed had considered the decision for no less than a full month, meaning that the decision is clearly one taken seriously and not in haste.

- Alternative methods of contraception are widely known.

- Virtually all acceptors (more than 99 percent) know that the method is permanent.

- The mean number of living children among VS acceptors of about four has changed little in recent years. Desired family size is between three and four children.

AID Role in the Development and Implementation of the Bangladesh National Population Policy

Since national independence, the Government of Bangladesh has been concerned about the economic development implications of very high rates of population growth. In 1976, the Government first developed and promulgated a national policy for population control and family planning. At the beginning of the Second Five Year Plan in July 1980, it established a demographic goal of achieving replacement rate fertility by 1990. The recently issued Third Five Year Plan (1985-1990) calls for a reduction of the population growth rate to 1.8% by the end of that period.

AID has played no direct role in the development of the Bangladesh Government's population policy. Leadership in the development of this policy, which is most clearly articulated in the Second and Third Five Year Plans, rests with the Population Section of the Planning Commission. The donors in Bangladesh--including AID--are supportive of the Government's concerns and objectives but do not impose goals on the Government.

Each Ministry concerned with development of the Five Year Plan provides inputs. Plans for actual family planning service delivery are provided and justified by the Ministry of Health and Family Planning. Final approval of the specific family planning objectives and strategy is made by the National Population Council which is chaired by the President.

A.I.D.'s role has been limited to the provision of occasional technical assistance at the request of the Government. This assistance has helped mainly to prepare demographic projections and analysis to be incorporated into the National Plan.

Program implementation is largely the responsibility of the Ministry of Health and Family Planning. Through a nationwide network of hospitals, health centers, and fieldworkers, the Ministry attempts to make comprehensive family planning information and services available to the bulk of the population. This public program is supplemented by a variety of indigenous non-governmental organizations (NGO's) who are involved in providing both clinical and non-clinical methods of contraception. The Ministry is responsible for coordinating and monitoring all these service delivery programs, both public and private.

No A.I.D. staff are involved in the actual delivery of family planning services. Our role is to support those program activities, both public and private, which the Government and A.I.D. mutually agree are important and needed. (A brief summary of the major program components for the period FY 1982 through 1986 is attached.) A.I.D. provides a wide range of technical assistance in such areas as management, information and education, counseling, and clinical skills.

AID ROLE IN BANGLADESH VOLUNTARY STERILIZATION PROGRAM

Senator Eagleton: To what extent do USAID funds help support payments to clients, doctors and paramedical staff, family planning workers, and members of the public for motivating and referring clients for sterilization?

Answer: One element of AID assistance to the Bangladesh Family Planning Program is the provision of support for voluntary sterilization (VS) services. This support helps to finance the costs of service delivery and reimburses clients and helpers (those who accompany clients to and from the clinic) for their out-of-pocket food and transportation expenses, and in the case of clients, for lost wages or work. The provider payments compensate physicians and clinic workers for the additional time they spend in providing VS services. Payments to clients are calculated to compensate for time lost from work and other duties during a reasonable period of convalescence from the surgical procedure, transportation to and from the clinic where the surgical procedure can be performed in a safe environment, and the cost of food while at the clinic. The attached table summarizes these payments.

No payments are made for motivating clients for sterilization. The helper reimbursements are specifically for the costs of accompanying the client to and from the clinic. Family planning workers and others officially registered as helpers are entitled to receive reimbursement for these costs.

BANGLADESH V.S. COMPENSATION PAYMENTS

Senator Eagleton: In AID's memorandum on Mr. William O'Reilly's article entitled, The Deadly Neocolonialism, AID takes the position that "an incentive would be a payment which induces persons to have a sterilization operation which they otherwise would not want." No such distinction is made in the legislative history to accompany the restriction on the AID funds being used to provide any financial incentive to any person to practice sterilization. Congressman Findley, author of the restriction in the House, stated, "My language would prohibit clearly involuntary sterilization. It would also prohibit payments, any kind of financial incentives, to any person to participate in a sterilization program." (emphasis added) How does AID reconcile its compensation theory with what I believe is a clear directive that payments to any person to participate in a sterilization program are prohibited?

Answer: Our review of the legislative history shows that Section 104(f)(2) of the Foreign Assistance Act of 1961, as amended (the FAA), prohibits the use of assistance funds to pay "any financial incentive." Congressman Findley stated during debate on this provision that it prohibits "payments, any kind of financial incentive, to any person to participate in a sterilization program." His phrase "any financial incentive" defines the payment which is prohibited. It is the same restriction as is in section 104(f).

This language restricting financial incentives does not prohibit payment of the costs associated with sterilization as a surgical procedure--extra costs not accompanying most other methods of contraception. Such extra costs can act as a barrier to a poor person's choosing to be sterilized because of lack of resources. The objective of the payments made by A.I.D. is to eliminate these cost barriers to enable a poor person to consider the various potential choices of family planning methods on an equal basis. The small amount paid is calculated to accomplish this objective, not to provide a financial incentive for any person to choose sterilization instead of other methods of family planning.

The position I have set forth above is consistent with the restriction in section 104(f) of the FAA, was developed in consultation with Congress, and has been the basis for implementation of A.I.D.'s population program for several years with the knowledge of Congress.

For example, in 1977 at the time of the debate on what is now section 104(f)(2), A.I.D. was developing guidelines to ensure that assistance would be provided for sterilization only on a voluntary basis and that United States funds would not be used for incentive payments. Congressman Bingham referred to the draft guidelines which had been provided to him and stated, in effect, that they "would simply be put into the statute by the substitute offered by the gentleman from Illinois," (Congressman Findley) (Cong. Rec. H4360, May 12, 1977). Congressman Zablocki reassured the House that

> [W]e will carefully review and follow-up this program to insure that AID does not change its policy with respect to the use of funds for involuntary sterilization programs. If we find that the agency should use such funds, I can assure the gentleman

> from Missouri (Mr. Young) that we will take care of it in the next go round." (Cong. Rec. H4362, May 12, 1977.)

Approximately one month later, Senator Eagleton introduced an identical amendment in the Senate. By that time, the guidelines had been finalized. They stated in part as follows:

> C. Incentive Payments. -- No A.I.D. funds can be used to pay potential acceptors of sterilization to induce their acceptance of VS." (Id. at 9827.)

During debate, Senator Humphrey stated:

> Mr. President, I ask unanimous consent that a communication I received today from the Department of State, AID agency, concerning voluntary sterilization be made a part of the Record.
>
> I also ask that the AID policy guildelines on voluntary sterilization be made part of the Record. These two communications refer to the Eagleton amendment and its application. (Cong. Rec. S9825), June 15, 1977.)

The policy statement, which was endorsed by members of both the House and the Senate, did not prohibit payments which cover the additional costs of sterilization because it is a surgical procedure. It prohibited payments which induce acceptance or serve as an incentive in the nature of a financial reward to the potential acceptor.

The following year, Sander Levin, then Assistant Administrator for the Development Support Bureau, testified before the Select Committee on Population of the House of Representatives on May 4, 1978. The following statements are recorded at page 150:

"Mr. Scheuer: Excuse me. Are we telling them [foreign countries] that they can't use U.S. dollars as part of the incentive.

Mr. Levin: We are saying AID money will not be used for any payment that, in essence, represents an incentive. Now, AID money can be used to cover certain specified out-of-pocket costs and can be used for health-related purposes. For example, AID money can be used to provide clean clothing after a surgical procedure. Transportation is another example of an out-of-pocket cost which can be covered. But there can be no payment to the acceptor, Mr. Scheuer, that uses U.S. money for an incentive."

The distinction between payments for extra costs related to sterilization as a surgical procedure, on the one hand, and payment of an incentive was more fully described in the A.I.D. policy guidelines on V.S. which are incorporated in A.I.D.'s September 1982 Policy Paper on Population Assistance (PD-3):

Further, A.I.D. support generally cannot be provided to VS [voluntary sterilization] services which include incentive payments paid to potential acceptors. For example, a VS program supported by A.I.D. cannot be supplemented with acceptor incentives to induce acceptance of sterilization services. Determination of what Constitutes an incentive must be made locally based on thorough knowledge of social and economic circumstances of potential acceptors. In general, recompense to acceptors for legitimate, extra expenses related to VS program services such as transportation,

> food during confinement, medicines, surgically related garments and dressings and the value of lost work are not considered incentive payments and are eligible for A.I.D. support. It should be emphasized that these payments must be of a reasonable nature and aimed at making VS services equally available at the same cost as other contraceptive services. For example, payment for lost work must correspond to a reasonable estimate of the value of lost labor over a reasonable duration of convalescence."

A.I.D. has implemented its population program, with the knowledge of Congress, in accordance with the Population Policy Statement. In fact, Title II of the 1985 Continuing Resolution (Public Law 98-473) stated, under the heading "Population Development Assistance":

> "It is further the sense of the House of Representatives that United States population assistance shall be administered in accordance with and faithful to these laws [including section 104 of the FAA] as interpreted by AID's 1982 'Policy Paper: Population Assistance.'"

The payments made in Bangladesh are carefully calculated so that they only compensate clients for extra costs incurred and income forgone. Rather than being incentives, the reimbursements in fact, only offset barriers which would make these services prohibitively expensive to most couples in Bangladesh. Bangladesh is an exceedingly poor country. The bulk of the potential users of voluntary sterilization services are persons who would find the costs (both out of pocket and those associated with an absence from work and other duties during convalescence from a voluntary sterilization procedure) prohibitive in the absence of some financial assistance. The cost to the potential client includes transportation to and from the clinic, food while a clinic in-patient, and the cost of lost wages or work.

Using a variety of surveys and studies, involving both A.I.D. staff and outside consultants, it is clear to us that both the nature and level of these reimbursements are appropriate in the Bangladesh context. To put the payments in perspective, the amount reimbursed to male and female clients is equivalent to roughly $6.00.

A.I.D.'s concern is that people are not coerced by force or induced by any incentive to undergo sterilizations they do not want. A.I.D.'s procedures are designed to ensure implementation of these principles, programs receiving support are monitored regularly by A.I.D. staff and independent contractors, and a number of studies have been completed which verify the success of this effort. The data are very reassuring. The vast majority of clients say they wanted the procedure in order to avoid having another child. Nearly 98% say they are satisfied with the procedure; and over 50% had already recommended the procedure to friends and relatives, and another 96% intend to do so in the future. Such post operative data is an excellent measure of the voluntary nature of the program. These post-operative regret rates are similar to those in the U.S., as is the extremely low level of mortality associated with the procedure. Also, the age and number of children of voluntary sterilization clients reflects local norms regarding desired family size. Finally, roughly 8% of Bangladeshi couples of reproductive age are using voluntary sterilization as their method of family planning, versus nearly 30 percent in the U.S. On the basis of this information, we have concluded that these A.I.D. financed reimbursements are for legitimate expenses and do not constitute an incentive.

SOURCE OF DATA ON BANGLADESH AVERAGE WAGES

Senator Eagleton: Even if, for the moment, one were to concede AID's compensation argument, Ms. Hartmann and Ms. Standing reinforce Mr. O'Reilly's estimation of the economic value of the 175 taka payment. Using their data, the 90 taka for lost wages represents three to three and one-half weeks average wages for women. AID's paper states that the payment is equivalent to six days salary for an unskilled female rural worker. Can you provide me with the source of your average wage data so that I may clear up this discrepancy?

Answer: Average daily wages for unskilled male agriculture workers is collected on a monthly basis and published in the Monthly Statistical Bulletin of Bangladesh. Data for the period 1984-85 show an average wage rate of approximately Tk. 25 per day. Although similar data are not collected for women, several rural employment schemes pay destitute women a cash wage of Tk. 15 to Tk. 20 per day. These wage levels have been confirmed by our AID Mission in Dhaka to be consistent with what a typical unskilled rural female worker would make as a daily laborer.

FOOD, SARIS AND STERILIZATION

Population Control in Bangladesh

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his report was written in July 1985, before the World Bank ad set the date for the final meeting to plan the nplementation and financing of the Third Population and amily Health Project for Bangladesh (Population III). It was repared in order to directly and indirectly influence the fficials involved in that meeting.

he arguments in the report will still have relevance after the ieeting, whatever the outcome. BIAG will continue to ncourage monitoring of all population programmes in angladesh. In addition the subject is universal since it affects vomen throughout the Third World and in the poorer sections f Western society.

he aims of the BIAG are:

ı) To analyse and publicise the effects of foreign governments' and multilateral agencies' intervention in Bangladesh and to campaign against the harmful effects of aid.

ɔ) To campaign against violations of human rights in Bangladesh, especially the repression of people's movements.

c) To work to end the activities of multinational companies whenever they exploit Bangladeshis either as producers or as consumers.

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Introductory Background

The fertile alluvial land of Bangladesh, which straddles three major rivers of the Indian Subcontinent as they flow into the Bay of Bengal, is the home of approximately 95 million people. The vast majority of these people live in the rural areas in conditions of increasing poverty. Yet these conditions are *not* the result of 'natural' disasters, or 'over-population', as represented in popular wisdom. They are the result of systematic inequalities in access to productive resources which have a history stretching back into British colonial rule.[1]

Today, the rural economy of Bangladesh is characterised by an increasing concentration of landholdings in fewer hands (10% of households own more than 50% of the cultivable land), by high rates of absolute landlessness (33% of rural households), increasing fragmentation of holdings amongst small and marginal farmers, and chronic agricultural underproduction.[2] Rural Bangladesh is thus not an economy of self-sufficient peasant farmers but one in which a rapidly rising number of poor men and women have to seek casual employment in an underdeveloped labour market in order to survive at all, while a small number, with direct and indirect assistance from the large number of international donor agencies operating in Bangladesh, can consolidate their wealth and power by engaging in commercial agriculture, trading, rural money-lending at very high interest rates, and by acting as private business contractors in the ever growing aid jamboree.

Bangladesh presents the cruel paradox of a country which is rich in natural resources and manpower, yet is one of the poorest countries in the world, with an average annual income of just $100 per head. A US Senate study notes that Bangladesh "is rich enough in fertile land, water, manpower and natural gas for fertiliser not only to be self sufficient in food, but a food exporter, even with rapidly increasing population size".[3] However, its rice yields are among the lowest in the world, and the statistics of poverty are shocking. Of every 1000 babies born, 150 will not live to their first birthday. Of the children who reach school age, 27% of boys and 62% of girls will receive no schooling at all, and the literacy rate for the population as a whole is only 26%. Real wages are declining and per capita food consumption is dropping year by year. Today, more than 60% of the population has an inadequate daily calorie intake. In terms of health care, Bangladesh has 76,000 hospital beds and 8,500 doctors. Of these, only 15% of the beds and 10% of the doctors are in the rural areas where 85% of the population lives.

The massive injections of aid into the country since it emerged as a sovereign state in 1971, while initially helping to prop up a devastated economy, have done nothing to decrease these inequalities and a great deal to perpetuate and strengthen them. External aid, now amounting to over $1000 million per year, funds some 94% of Bangladesh's public investment programme. This gives the predominantly western aid donors, of which the World Bank and the United States Agency for International Development (USAID) are the largest, an unparalleled degree of direct control over the style and direction of Bangladesh's economy.[4] Most aid takes the form of bilateral aid from individual governments and multilateral aid from international agencies. A small amount of money is channelled through voluntary agencies whose record on reaching the poor is significantly better. The hallmarks of the present style of the largest bilateral and multilateral donors are the encouragement of private business and farming interests among the well-to-do at the expense of measures to raise the living standards of the mass of the population. Foreign aid has also helped to consolidate the power of the military, which has ruled the country since the overthrow, in 1975, of Bangladesh's only democratically elected government.

Hence, the people of Bangladesh have been denied, for the last 10 years, any democratic voice in the policies of their government — policies which intimately affect their well-being. This is nowhere more true than in the realm of population control activities, where the recipients have never had any opportunity to contest the view of the major donor agencies that 'over-population', rather than inequitable access to resources, is the 'real' problem in Bangladesh and that if birthrates can be drastically reduced, then poverty will be greatly alleviated.

In almost all contexts, including that of Western Europe before the 20th century as well as contemporary Bangladesh, high fertility rates among the poor are linked to high infant mortality rates and to a need to ensure that sufficient children will survive to provide family labour in farming or security for parents in old age.[5] In the developed countries, the process of economic development created the conditions for low fertility rates by eliminating the need for child labour, providing alternative institutional forms of security, such as pension plans, and encouraging women in larger numbers to join the formal labour force. Third World countries do not have to duplicate exactly the development pattern of the West, however, to undergo a fertility decline. By following a more equitable path of development, a number of Third World countries with very low per-capita income levels, such as China, Sri Lanka and the State of Kerala in India have experienced significant reductions in population growth, following the introduction of comprehensive health, education and social security systems. There is nothing peculiar about Bangladesh to suggest that this scenario could not be repeated there if infant mortality rates were to be greatly reduced and the fruits of development were to be shared by the poor rather than by just a privileged few.

In fact, many Bangladeshi women are themselves keen to control their own fertility, provided that family planning services are delivered in a humane and strictly voluntary manner and are backed by appropriate measures to enable the fewer resulting children to survive. Such services are sadly lacking in Bangladesh.

Population control, however, is not synonymous with family planning. Population control seeks to force down birthrates in the absence of major improvements in people's lives, and thus uses birth control as a weapon rather than as a tool of reproductive choice. In Bangladesh today, population control is an intensely political issue, involving a full-scale attack on the urban and rural poor by the World Bank, USAID and their allies in the Bangladesh Government.

Population Control in Bangladesh: A Short History

Population control interventions in Bangladesh began in the erstwhile East Pakistan with the formation of a private Family Planning Association, founded by a senior police officer and funded largely from abroad. This was followed by a 1960 Population Council Mission, and culminated in the establishment of a government National Family Planning Board in the mid-1960s which launched a village level IUD and vasectomy campaign. Bangladesh's war of liberation led to a temporary lull in these activities, but the aid money which flowed into the country after the war also washed in a new wave of population advisors.

The new Government's First Five Year Plan (1973-78) obligingly followed their lead, stating that "no civilised measure would be too drastic to keep (the) population on the smaller side of 15 crores (150 million) for sheer ecological survival of the nation".[6] An ambitious fertility decline goal was set, and a National Production Council established, which pursued a variety of strategies: integrated family planning and health services, women and development activities, social marketing schemes and a USAID funded contraceptive inundation scheme. Ultimately, none proved particularly effective. Administratively the programme was weak, and family planning workers lacked adequate training, motivation and supervision. Moreover, economic conditions in the countryside were hardly conducive to a substantial reduction in the birthrate.

Nevertheless, the Government's Second Five Year Plan (1980-85) aimed to reduce the crude birth rate from 43 per 1,000 in 1980 to 32 per 1,000 in 1985. This was to be done primarily by increasing the number of sterilizations through the lure of incentives.[7] Although international donors viewed this target as overly ambitious, they nevertheless welcomed the Government's growing commitment to population control.

In March 1983, concerned that the Government's population performance was not yet 'effective' enough, donor agencies, including the World Bank, USAID and the United Nations Fund for Population Activities (UNFPA) circulated a position paper calling for a drastic reduction in population growth, the creation of an autonomous National Population Control Board with 'emergency powers' and frequent visits by 'high ranking government and army personnel' to promote family planning in the villages.[8] It also recommended increasing the incentives given for sterilization operations. Pressure intensified several months later, when World Bank Vice President W. David Hopper sent a letter to Bangladesh's Minister of Finance and Planning, A.M.A. Muhith, instructing him to "outline necessary measures to strengthen the programme so that agreed national population objectives could be met on time".[9]

In confidential correspondence, leaked by a concerned official, Walter Holzhausen, UNFPA's Dhaka representative went one step further. For Holzhausen, the aid community's already considerable pressure on the Bangladesh Government to push population control, was still not sufficient. More frank than most, he indicated his preparedness to drop the language of voluntarism within which the family planning programme has hitherto been couched, and openly support compulsion. (For the full text of this letter, see Appendix 1).

Meanwhile, heavily dependent on foreign aid, the Bangladesh Government responded quickly to these pressures. It enhanced incentives for sterilization and introduced punitive measures against family planning personnel who failed to meet monthly sterilization targets. Today, President Ershad, the country's martial law ruler, considers population control to be Bangladesh's number one priority.[10] Increasingly the means to achieve this end is female sterilization, financed largely from abroad.

The Sterilization Drive

The Financial Incentive System

The payment of incentives in the family planning programme was first suggested by the Bangladesh National Population Policy document of 1976. This document advocated a 'cafeteria' approach to contraceptive use which emphasised both clinical and non-clinical methods as well as more traditional or indirect means such as the rhythm method and later marriage. However it also recommended that the programme should be supplemented by a system of payments (called 'compensation') to the client, the motivator and the clinic staff. These incentives were introduced only for clinical methods — initially for sterilizations and subsequently for IUD insertions.[11]

Currently, payments to sterilization clients consist of 175 Taka, which is equivalent to about three weeks average wages for men and six to seven weeks for women,[12] and a *sari* worth 100 Taka for women or a *lungi* worth 50 Taka for men. IUD acceptors are paid 25 Taka.

Family planning workers are paid 15 Taka for every sterilization or IUD case referred. Members of the public receive 20 Taka if they 'motivate' another person, and 35 Taka if they also refer that person to the clinic. *Dais* (traditional village birth attendants) receive 45 Taka for the same services. Doctors receive 20 Taka for each sterilization operation performed, and clinical assistants at operations receive 10-15 Taka.

This complex system of payments has been accompanied by sanctions ('disincentives') against family planning workers who fail to meet monthly sterilization targets which are set on a nationwide basis. Such workers first receive warning letters from supervisors, followed by the withholding of salaries if they continue to fall below target. Plans have also been put forward to reward individual workers with cash awards for 'outstanding performance'.

Payment levels have been increased a number of times, but, until 1983 when they were equalised for both male and female operations, incentive payments for women were higher. The effect of this is reflected in the figures for contraceptive prevalence in Appendix 2. Although the number of vasectomy operations (male) increased steadily from none in 1973 to 88,000 in 1982, the number of tubectomies (female) grew at a very much faster rate to more than 250,000 in 1982. Following the equalisation of payments, vasectomies more than doubled in number in 1983 but still remained well below the number of tubectomies. IUD insertions have also increased greatly since the introduction of incentive payments — more than tripling since 1981.

There have also been steady increases in the use of other methods of contraception since the early 1970s. However, the Government has made it clear that the 'cafeteria' approach to family planning, in which the widest range of contraceptives are made available, is subordinate to the drive for clinical methods, particularly female sterilization. Today, 34% of contraceptive users, or 1.6 million people, have been sterilized in Bangladesh, and the aim is to increase this to 41%, or 3.5 million people, by the end of the decade.

Although vasectomy is clinically a much simpler operation with lower medical risks, there are no plans to 'motivate' a greater number of men to undergo vasectomies. A source within the donor agencies told one of the authors that donors felt a push for more vasectomies would offend the sentiments of men in a predominantly Muslim society.

USAID finances 85% of the sterilization incentives and referral fees as part of its over $25 million annual contribution to the country's family planning programme, the agency's largest bilateral population commitment in the world. USAID's funding of incentives contravenes section 104 (f) of the 1982/83 US Foreign Assistance Act, which prohibits the use of US funds "to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilization". It maintains that the money is intended to cover transportation, food costs and wages lost due to the operation. The free *saris* and *lungis* are justified as "surgical apparel", since the peasants' clothing is considered unhygienic. "Just look at these people, they're so dirty," said Jack Thomas, USAID's deputy chief of family planning in Bangladesh.[13] In fact the clothing is often handed out after the operation, giving the lie to the "surgical apparel" argument.

In Bangladesh, where chronic hunger and unemployment are realities for much of the rural population, the distinction between compensation and incentives is no more than a semantic sleight of hand. 175 Taka can buy food for a hungry person for several weeks and a new piece of clothing is a powerful inducement for a woman or man who owns only one ragged garment. In fact, the documents of other donors, as well as of the Bangladesh Government itself, freely call the payments "incentives" since they do not have to worry about playing hide and seek with US law.[14]

Not surprisingly, government figures show that the number of sterilizations increases dramatically during the lean autumn months before the rice harvest, when many landless peasants are unemployed and destitute. According to US Congressman Joel Pritchard, who publicly defends the USAID programme, this is because during slack agricultural periods people have more leisure for "special activities" such as sterilization. A Western health adviser in Dhaka disagreed, pointing out that "pure hunger is the motivation for sterilization".[15]

Clinical Conditions

Under what conditions are the sterilizations carried out? A 1983 study of the programme by the World Bank, World Health Organisation (WHO), the Swedish International Development Authority (SIDA) and the Bangladesh Government raises a number of serious concerns. Informed consent is, officially, the basis of the sterilization programme, but the reviewers found that "consent forms are not adequately filled in at most of the centres". In more than 40% of the centres observed, clients were "not adequately informed about the permanent nature of the operation" or about surgical procedures. The reviewers also discovered shocking standards of hygiene. In 34% of the Government's Family Welfare Centres surgical gloves were not changed between operations, in 76% surgical gowns were not changed or sometimes not worn at all. Almost half the centres did not sterilize equipment satisfactorily. The reviewers felt compelled to prepare guidelines on such basic procedures as "how to scrub the hands for operation".[16] Independent Bangladeshi rural development workers and researchers have also reported incidents of women being tied with rope to operating tables when anaesthetics were in short supply. Post operative care is often poor or non-existent.[17]

Under such conditions one would expect a high rate of complications from the operation, but the review team found that "case records are often not written up and complications are not recorded".[18] A Western health adviser put it more bluntly: "If people die during the operation or there is a complication, their record cards will be torn up".[19] As a result, the official death rate from sterilization operations in Bangladesh is below that of the United States, a finding the review team diplomatically calls 'surprising'.

First hand reports suggest that the rate of complications is in reality much higher. A Dhaka shopkeeper who returned to his native Mymensingh village in December 1983 to help his parents with the rice harvest reported to one of the authors that when he tried to hire five destitute women to process the rice, they said they could not work because of "cut stomachs", their term for sterilization. The operation had left them disabled, unable to husk rice or carry heavy loads — the routine work of village women. As a result their husbands had divorced them and they had become beggars. Rural development workers have reported similar cases of serious side-effects.

The Effects of the Incentive System

The incentive system has had a wide range of negative effects. A number of these are revealed in a 1984 investigation by the Programme for the Introduction and Adaptation of Contraceptive Technology (PIACT):[20]

Competition: The PIACT study found that the different levels of sterilization referral/motivation fees paid to the various categories of health and family planning personnel cause "unhealthy competition" between them. Family planning workers and village midwives *(dais)* particularly, compete with each other, with family planning workers complaining that the *dais* often 'steal' their cases because of the higher fees *dais* receive. Unlike the workers, *dais* receive no regular salary and are paid on a per-case basis. Competition between the different workers, whose services are meant to be complementary, reduces co-operation elsewhere. Workers complain of each other, for example, that information about clients' complications is withheld and follow-up care consequently neglected.

Neglect of other contraceptive methods: Because referral/motivation fees are given only for sterilization and the IUD, family planning workers spend more than half their time, and *dais* almost all their time, recruiting sterilization and IUD acceptors. Workers generally do not discuss other contraceptive methods with clients since they do not want to lose the fee.

Lack of counselling: Nor do workers adequately inform clients of the possible side effects of sterilization and the IUD for fear of losing fees.

Lack of follow up: In such a setting, follow-up care is not a priority. About half the acceptors interviewed by PIACT said that no one had visited them for after-care checks despite being requested to do so. As a Bangladeshi health worker has commented elsewhere "the sterilization acceptor under an incentive scheme is merely a further number of the profiteer. Once the procedure is finished, so is the patient — no one cares about them post-operatively, if they have complications, if further problems arise later. They have served their usefulness".[21]

Male agents: The PIACT study reports the existence of male agents, with no family planning background, who scour the villages in some areas for potential male and female sterilization clients. They sometimes 'sell' these clients to family planning workers who need to fill monthly quotas.

Financial pressure: On the clients' part, the study notes that the cash incentive plays an important part in their decision to accept the IUD and sterilization.

A further cause for concern is the strong inducement to 'manufacture' figures in order to fulfill unrealistic quotas. A senior worker with many years of experience of the programme revealed that payments to personnel encourage corruption — numbers are inflated for financial gain. At least one donor agency has noted that this fiddling of data generates "serious management problems," which are hardly conducive to the establishment of an effective family planning programme.[22]

By far the most serious consequence of the incentive system, however, is its tendency to lead to direct and indirect forms of coercion. A 1985 position paper by the Swedish International Development Authority (SIDA) notes that "the combination of incentives and disincentives carries the danger of unacceptable pressure being exerted on potential acceptors and may amount to indirect coercion", and may contravene the principle of "free and informed choice as to contraceptive methods" universally endorsed in the UN World Population Plan of Action. It attacks the setting of arbitrary sterilization targets, and notes that "the constant endeavor to reach targets and the threat of punitive action if targets are not met both lead to a neglect of counselling", which is most serious "when it comes to sterilization since it is irreversible". SIDA expresses particular concern at the introduction of community incentives for meeting quotas, arguing that it: "may lead to a situation where the local elites exercise their interests. In such a situation further risk of abuse and discrimination of the rural poor cannot be neglected. The more people or institutions that have economic or prestige interest in the regulation of an individual's fertility, the more the free and informed choice will be jeopardized."[23]

SIDA's paper correctly identifies the real dangers of incentive systems in situations of severe economic and political inequality.

Poor people are vulnerable both to the lure of financial rewards and to political pressure from the more powerful.

Towards Coercion

In Bangladesh these pressures have already resulted in a number of cases of sterilization abuse, particularly of poor rural women. One of the most dramatic instances occurred in June 1983 when the Bangladesh Army launched a campaign of compulsory sterilization in the northern district of Mymensingh. Villagers whose names had been listed by local leaders as having more than three children were forcibly rounded up by military personnel and taken in trucks to a local clinic where they were made to sign "informed consent" papers. In the space of a few weeks, over 500 people, mainly poor women including many from a minority tribal community, had been sterilized, against their will. USAID officials eventually exerted pressure on the Bangladesh Government to halt the Army campaign. "The Government knows it won't work with the Army in the long run," said USAID's Jack Thomas. "There'll be a backlash."

A little over a year later, in the monsoon months of 1984, Bangladesh suffered severe flooding which devastated food crops in many districts. In the course of monitoring food relief programmes, field workers from British voluntary agencies discovered cases where emergency food aid provided through the UN World Food Programme had been withheld from destitute women unless they agreed to be sterilized. These reports have been supported by information from non-governmental Bangladeshi agencies working in rural health care.

One such case was a 20 year old woman, called Rohima, living in a village a few hours bus ride from the capital city of Dhaka. Rohima's husband had divorced her when she was 7 months pregnant and sent her back to her parent's home. The floods had terminated her one source of local employment in rice husking and she and her son had nothing to eat. She therefore applied to the Union Council Chairman for food relief but was told "if you have the operation, you will get wheat". Rohima was just one of a number of destitute women in her village who were pressurised in this way. According to a voluntary agency health worker, most of the women in this village who were sterilized in the months immediately following the flood had agreed to the operation in order to get wheat from the relief programme. When asked how she could identify these women, she pointed out that local sterilization cases during that period could always be identified by the colour of their clothing, as each woman sterilized had received a particular red patterned *sari*.

Cases of this kind have now been reported from Barisal, Jessore, Comilla and Pabna Districts. (See Appendix 3 for more case histories.) Abuses seem to have centred particularly on the Bangladesh Government's Vulnerable Group Feeding Scheme (VGF), which is designed to reach the most vulnerable categories of the rural poor, such as the landless destitute and unsupported women. It appears that some local officials and family planning personnel used the opportunity this scheme presented to increase their sterilization figures. In some cases officials issued special cards authorising food relief to women who had been sterilized. (See Appendix 4.)

However, many of the sterilized women complained that they were subsequently refused the wheat to which they were entitled, or that their allowance had been cut back or stopped after a short period. Meanwhile, many widows and older women who were eligible for relief under the VGF scheme received none at all, as they were not suitable sterilization cases.

Reports suggest that side effects from this spate of operations were common, and of 85 women known to have been sterilized in one location in Pabna District, two allegedly died as a result.[24]

Official statistics would seem to substantiate these unofficial reports. According to government figures presented by the *Bangladesh Observer*, an "unprecedented" 257,000 sterilizations were performed in the flood months July-October 1984 — almost one-quarter of the total performed in the entire decade 1972-82.[25]

USAID, which is supposed to closely monitor the sterilization programme, was not aware of the food aid abuses until alerted by outside parties. It then undertook an investigation, which suggested that "some incidents may in fact have occurred but were not widespread". The World Bank meanwhile maintained that any abuses were probably due to "overzealous local officials" taking "undue advantage of food shortages to improve their family planning records." These agencies did however, bring the matter to the attention of senior Bangladesh Government officials, who responded by issuing a memorandum prohibiting the use of "unapproved inducements for sterilization acceptance".[26] (See Appendix 5.)

While the linking of sterilization and food aid may not be official government policy, it is the logical outcome of the incentive/disincentive system. In Bangladesh, where millions go hungry every day, food — or the cash to buy it — is the ultimate weapon. Local officials were bound to add food aid to their arsenal sooner or later, especially since they were under great pressure to meet sterilization targets.

In summary, both the existence and the operation of the incentive system give rise to grave concern for a wide range of reasons. That it encourages a heavy reliance on female sterilization is unsurprising, given the realities of Bangladesh today. The poor have little political leverage, and destitute rural women have the least of all. Ironically, there is contention even over the efficiency of sterilization incentives in producing the requisite fall in birth rates. In rural Bangladesh birth rates tend to be higher among the more affluent landed families than among the landless, connected to their greater need for family farm labour. Such families are far less succeptible economically and politically to the pressures of incentives.[27] It is women such as Rohima, sterilized after having only one child, who are much more likely to bear the continuing brunt of these pressures.

Divisions among the Donors

Within the donor community, deep divisions have emerged over the incentive system, with USAID and the World Bank as its main defenders. A confidential 1985 World Bank report, written in the 'neutral' language of technical assistance programmes, gives "qualified endorsement" to the incentive system and welcomes the "administrative actions" taken by the government during 1983-84 "which brought about considerable programme improvement" resulting in a higher contraceptive prevalence rate.[28] As for abuses, these agencies deny that they are inherent in the system and instead maintain that better monitoring and management is the answer. "From experience, we know that one of the best safeguards against abuses is good management of services," John D. North, Director of the Bank's Population, Health and Nuturition Department, wrote in response to the food aid incidents. The Department's Senior Advisor, Dr. K. Kanagaratnam, even denied that aid agencies bear any responsibility for abuses in programmes which they fund, arguing that "it's not the donor's responsibility to supervise government programmes. If you buy a car from me and then run someone over, is it my fault?"[29]

Other donor agencies, however, are much more critical. The concerns SIDA expressed in its recent position paper have been echoed by other donors, notably the Dutch and Norwegian aid agencies, UNICEF, and the British Overseas Development Administration. As well as their general reservations about sterilization incentives, these donors are particularly concerned that the incentive system detracts from the provision of Maternal and Child Health (MCH) services, which are supposed to be closely integrated with family planning in Bangladesh. It is the issue of health care which, more than anything, has widened the division between this group of donors and the population hardliners.

The Health Connection

Health conditions for the vast majority of Bangladeshis are extremely poor. One in every five children dies before the age of five; the main cause of death is diarrhoeal disease combined with malnutrition. Yet Bangladesh has no national nutrition programme. Maternal mortality rates are also extremely high. Unhygenic birth practices and septic abortions are leading killers, helped by generally high levels of female malnutrition and anaemia. Over half of maternal deaths could be prevented by better health care. Yet most medical facilities are inaccessible to poor women, and traditional midwives now spend most of their time recruiting sterilization and IUD acceptors.[30]

The progress of basic health services in Bangladesh has been a chequered one. In its short life as an indepedent nation, the uneasy relationship between health care and population control has resulted in five major reorganisations of the health system causing, according to the World Bank, "a legacy of programme disruption and staff demoralization".[31] Under the current system set up in 1983, both are joined in the Ministry of Health and Population Control, with family planning and MCH services forming one wing and broader health services the other. At the local level health and family planning are functionally integrated, with various health personnel theoretically assuming aspects of both duties.

The shift towards greater integration of the two, stems, in part, from the growing emphasis on sterilization and the IUD, which require clinical infrastructure.[32] But while the population programme has benefited from the use of medical facilities and personnel, basic health care has suffered. In financial terms, spending on population control now absorbs over one-third of the country's annual health budget, and its share is growing. At the same time the incentive system lures health workers away from their basic duties. As one aid official in Dhaka explained, "It's virtually impossible to interest government health workers in primary health care when they stand to gain so much from sterilization fees". The government has admitted quite frankly like to see health services improved and expanded. SIDA's recent position paper, for example, states:

> "The incentives and disincentives system is likely to compete with other health services. Not enough attention is paid to basic health needs. There are good reasons to suspect that an expansion of MCH services will be significantly hampered by the present system... Health workers are likely to favour the activities which bring money and are set by target, especially if non-achievement of targets will lead to threats of retention of salaries... From the consumers' perspective, the emphasis on sterilization to the detriment of associated health objectives may result in doubts about the objectives of Government health policies and personnel."[38]

Similarly, within Bangladesh itself there are many government officials, doctors and health workers, who disapprove of the singleminded emphasis on sterilization and the neglect of basic health. They have made positive moves to reform the health system, which include a courageous Drug Ordinance banning dangerous and useless drugs and curbing the power of multinational pharmaceutical companies in the country.[39] Their ability to move forward, however, is restricted by the budgetary and political priority of population control. At the time of writing, the protagonists of these three different views are locked into debate over the next phase of a World Bank sponsored population programme in Bangladesh.

The Battle for Population III

In February 1985, representatives of the World Bank, the Bangladesh Government, UNICEF and the bilateral aid agencies of Australia, Canada, Germany, the Netherlands, Norway, Sweden and the UK met in Paris to finalise arrangements for the financing and implementation of the Third Population and Family Health Project for Bangladesh (Population III). This project, which is due to run from 1985-90, involves a budget of over US $270 million.

Usually such meetings serve as a rubber stamp of approval, but on this occasion, a number of the donors withheld their final pledges. They voiced concern over the incentive system, reports of sterilization abuses and the neglect of MCH services. Both the World Bank and the Bangladesh Government were criticised. The Government's representatives were asked to respond to these criticisms, and in particular to put forward plans for the dismantling of the incentive system within a definite period of time. Concerned donors also asked for the immediate abolition of disincentives, such as the withholding of salaries of family planning personnel for failing to reach their targets. They were also worried about the high recurrent costs of the project as a whole.

The Bangladesh Government's response was to deny that any abuses had occurred and to plead that without incentives the population programme would be ineffective. However, they agreed to prepare additional material on the operation of incentives and to clarify their position in respect to the health care component of the programme. Another meeting was scheduled for the summer.

For the World Bank representatives attending the meeting, the end result must have been a severe blow. Months of effort and thousands of dollars had gone into preparing Population III. Now the multi-million dollar project was hanging in the balance.

The Bank's vision of Population III is embodied in a confidential draft Staff Appraisal Report. According to this document, the explicit goal of the project is to increase the contraceptive prevalence rate from 26% in 1985 to around 40% in 1990 in order to 'avert' 7 million births over the next fifteen years. The MCH component is expected to "lead to an increase in the quality of human capital". There is no discussion in the document of the serious problems caused by the incentive system. The basic risk, according to the Bank, is that the government will fail to meet its "ambitious but achievable" population reduction and MCH goals.[40]

Instead of the 'cafeteria' approach to family planning, the Bank supports what would be better termed the 'forced feeding' approach of the government. The Table below lays out the government's plans for contraceptive 'mix' — the concept of 'choice' is conspicuous by its absence.

Contraceptive Method Mix
(Percentage of Contraceptive Prevalence Rate)

	1984-85	1989-90
Sterilization	34	41
Oral Pills	14	16
Condom	16	15
IUD	10	15
Injectable	1	2
Traditional and Other	25	11

Bangladesh: Staff Appraisal Report, Third Population and Family Health Project, Population, Health and Nutrition Department, World Bank, 18 Feb. 1985

As part of the project's 'communications' component, couples will be strongly encouraged to switch from traditional to modern contraceptive methods. Injectables, which are a continuing source of medical controversy because of their side effects and possible long term risks, will be promoted through the Social Marketing Project and distributed by private family planning organisations in order to avoid opposition from the Bangladesh medical profession. Private organizations, in fact, are to receive a ten-fold increase in funding over the last Bank population project in Bangladesh, in recognition not only of their better record in delivering services, but of the role they can play in "innovative" family planning approaches such as the promotion of injectable contraceptives.

In a tacit admission of the programme's problems to date, the Bank plans to expand and upgrade the sterilization monitoring systems and worker supervision in general, though it admits that such efforts "run counter to bureaucratic tradition".[41] It proposes modifications in the incentive system, but no fundamental changes. In fact, it is willing to go even one step further to support "possible legal and administrative measures to raise the cost of children".[42]

The British, Dutch and Scandinavian representatives, together with UNICEF, were all unhappy with the World Bank document. One month after the Paris meeting, Christopher Allison, Population Advisor to the British Overseas Development Administration, wrote to the Bank that the British Government was concerned that the Staff Appraisal Report "may be interpreted as providing a tacit endorsement" of the incentive system, which he argued "has potentially greater negative than positive effects on worker attitudes, practices and performance". Allison stated bluntly that the UK "would like to see the entire system of incentives and disincentives abolished altogether".[43]

Swedish officials were prepared to postpone their funding decision, if necessary, so important were the issues involved. "However, we worry that if we withdraw," said one, "the programme will only get worse". Within all these agencies, however, opinion was divided with some officials already prepared to steer a 'pragmatic' course of acceptance, not least because of bureaucratic pressure to spend the allotted population funds.[44]

Three months after the Paris meeting, the Bangladesh Government's position paper on the incentive system was sent to the donors.[45] The paper acknowledges donor concern with the system's negative consequences, but evades any commitment to end it within a specified period of time. Instead, incentives to clients are defended on the grounds that they are really 'compensation', are given in 'neighbouring countries', and are necessary ~~to~~ 'accelerate fertility decline'. Fees to doctors and paramedical staff for sterilization and IUD insertions are described as non-controversial and are to be retained, as are payments to family planning workers and members of the public for motivating and referring clients. However these latter payments have now been equalised for all personnel involved in sterilization referral as a response to complaints about the 'competitiveness' of the present payment system. A similar equalisation is proposed for IUD referrals in the future. No information is given on whether payments have been, or are to be, equalised upwards or downwards. There is also a plan to introduce referral payments for injectables. The paper proposes to retain worker and community awards for exceptional performance, though it broadens the criteria to include MCH work. Punishment disincentives for workers are to be abolished.

The paper also makes various proposals regarding the monitoring of the programme to prevent abuses. However, the majority of these measures are already in operation and their success rate so far appears less than satisfactory. Aside from the abolition of disincentives, the paper thus makes few major changes.

Meanwhile, UNICEF has decided not to become formally involved with the World Bank project because of reservations about the strong emphasis on sterilization. Richard Jolly, UNICEF's Assistant Secretary-General, commented: "You will get a much more enthusiastic response from people if family planning methods are part of an MCH programme".[46] At the time of writing the date of the final meeting of Population III is still to be announced, and the remaining donors have yet to take their decisions. As one commented, "the issue is still wide open". Their tactics are to use the current negotiations as a lever to wrest improvements from both the Bangladesh Government and the World Bank.

What is to be done?

In Bangladesh

The World Bank and other donors are aware that there is a link between high fertility rates and the low social status of women in Bangladesh, particularly in relation to their lack of income earning opportunities.[47]

The Bank, along with other bilateral donors, has been involved in the setting up of income generating schemes for women. None has been conspicuously successful. The main objective of these externally financed schemes has often been fertility limitation rather than employment creation, and the types of skill fostered and mode of organization have rarely benefited poor women.[48]

However, there are positive examples of programmes run largely by Bangladeshi voluntary organisations. The 'Seven Village Women's Self Reliance Movement'[49] for instance, is an example of a programme which provides an integrated range of services in income generation, education, health and social change at the village level. Family planning services are just one part of the programme, but the record of success in delivery has been consistently high, because the emphasis has been on expanding women's choice, not controlling population growth. Such examples point the way to the kind of services which the government could and should be providing.

Indeed, it is a tragic irony that in Bangladesh today millions of women lack access to decent family planning services because of mistaken government and donor priorities. Instead of solving the population 'problem', population control can actually accentuate it.

In Europe and North America

At the time of writing before the Population III Meeting and after the Meeting the following steps can be taken:

— **Lobby your government to withdraw from Population III** unless the incentive system is abolished altogether and the emphasis on fertility decline at the expense of MCH services is overturned. Governments involved in the discussions should insist that basic health care must have top priority in Bangladesh's health budget.

— **Ask your government to give assurances that it will not support 'population control' measures in Bangladesh or anywhere else.** It should only fund voluntary family planning programmes, which respect people's right to choose, offer a wide range of contraceptives and give adequate counselling, screening and follow-up care. Your government's family planning funding should be regularly monitored to make sure this is the case. All Western donor governments funding family planning should be encouraged to undertake more culturally sensitive research on the kinds of birth control services women really want.

— **Draw links** between the racism, sexism and elitism underlying the forced sterilization of Bangladeshi women with the racism, elitism and sexism which pervades much of Western society. In many Western countries, black and Asian women are often the victims of population control efforts, such as receiving Depo Provera injections without their informed consent. It is vital that we address limitations on reproductive choice in our own society as well as overseas.

— **Support development education efforts and campaigns,** in your country, which aim to expose the real roots of poverty in countries such as Bangladesh, and the complexities of the population question. Today the population bomb mentality is coming back in vogue. It is crucial that people understand that rapid population growth is a symptom of the much deeper disease of poverty, lack of power, and the oppression of women. Population control is not an effective cure; on the contrary, it can increase human suffering.

— **Lobby Members of your National Parliament** and the relevant ministries generally on the question of more appropriate aid programmes for Bangladesh. Today's debate on *quantity* of aid must shift to *quality* of aid.

Footnotes

1. See T. Learmonth and F. Rolt, **Underdeveloping Bangladesh: 225 years of British Involvement**, London: War on Want, 1982.

2. These figures are taken from F. McCarthy and S. Feldman, "Rural Women Discovered: New Sources of Capital and Labour in Bangladesh", **Development and Change**, Vol.14 (1983), pp211-236. It is estimated that more than 50% of the rural population is now 'functionally landless'.

3. "World Hunger, Health and Refugee Problems: Summary of Special Study Mission to Asia and the Middle East." Report prepared for the Sub-committee on Refugees and Escapees, Senate Committee on the Judiciary, January 1976, p.99.

4. For an elaboration of these points, see R. Sobhan, **The Crisis of External Dependence: The Political Economy of Foreign Aid to Bangladesh**, London: Zed Press, 1982.

5. See B. Hartmann and J. Boyce, **A Quiet Violence: View from a Bangladesh Village**, London: Zed Press, 1983. For a clear presentation of the dynamics of population growth, see William W. Murdoch, **The Poverty of Nations**, Baltimore and London: John Hopkins University Press, 1980.

6. Quoted in F. Akhter, "Depopulating Bangladesh: A Brief History of External Intervention into the Reproductive Behaviour of a Society". Paper delivered to the Women's International Tribunal on Reproductive Rights, Amsterdam, July 1984, p.12.

7. World Bank, **Bangladesh, Staff Appraisal Report, Third Population and Family Health Project**, Population, Health and Nutrition Department, February 1985. Administrative details of the population programme's history can be found in this report.

8. Donor's Community in Dhaka, "Position Paper on the Population Control and Family Planning Programme in Bangladesh", March 1983, draft.

9. Letter dated 30th June 1983, obtained by journalist Jane Hughes.

10. Ershad stated this in an interview with Robert Bradnock, "Upazilla Struggle", **Guardian**, 10 May 1985.

11. PIACT, "Preliminary Report on a Study of Motivational and Referral Fee System under the Population Control Programme", Bangladesh, 24 October 1984. Draft.

12. McCarthy and Feldman estimate women's yearly average income from agricultural labour at only Taka 1,339. McCarthy and Feldman, *op. cit.*

13. 85% figure from World Bank, *op.cit.*, p.12. AID also supports the activities of the Bangladesh Association for Voluntary Sterilization, which performs 30% of all sterilizations in Bangladesh. (Ibid, p.10). In FY 1985 AID allocated $27 million in population aid to Bangladesh — see AID, **FY 1985 Congressional Presentation.** Thomas quote obtained by J. Hughes in Dhaka. Clothing handed out after the operation: information obtained from voluntary agency field workers.

14. On the use of the word "incentives", see for example letter from Frank Vogl of the World Bank's Information and Public Affairs Department in **The Nation**, New York, 24 Nov. 1984, Donors' Community in Dhaka, *op.cit.*, PIACT, *op.cit.* p.1.

15. For example, in October 1983, after the incentive payments were increased, the number of sterilizations more than doubled from the September figure to 62,399, and rose again to 70,612 in November. In December, when the rice harvest began, they fell to 37,099. These figures were acquired by Jane Hughes from AID in Dhaka. Pritchard quote from his letter to The Nation, August 18-25, 1984. Health advisor quote obtained by Hughes in Dhaka.

16. Bangladesh Sterilization Surveillance Team, "First Four-Partite Review", Sept. 1983.

17. See F. Akhter, "On Population Control Policies and Practices in Bangladesh", Dhaka, Policy Research for Development Alternatives, March 1984, p.14. Also personal communication with the Bangladeshi head of a rural development organisation.

18. Bangladesh Sterilization Surveillance Team, *op.cit.*

19. Jane Hughes — interview in Dhaka.

20. PIACT, *op.cit.*

21. "Cash Incentives Degrade Both Parties", **People**, Vol.9, No.4, 1982.

22. SIDA, "Incentives and Disincentives in the Bangladesh Population and Family Health Project", Position and Discussion Paper, Stockholm/Dhaka, January 1985 p.1.

23. *Ibid.* Both quotations on p.4.

24. On the military campaign, see: "A Successful Human Rights Action Against Compulsory Sterilization", **Asia Link**, Vol.V, No. 1, January 1984, published by Center for the Progress of Peoples. Thomas quote from Hughes in Dhaka. On food aid abuses: communications with field workers of various British Agencies; also independent survey, "Wheat for Statistics", not yet published because of sensitivity of issue.

25. **Bangladesh Observer**, 14 December 1984.

26. Letter from David A. Oot, Chief of AID's Population, Health and Nutrition Division, Bureau for Asia, to Hartmann, dated 28 March 1985; letter from John D.North, Director of the World Bank's Population, Health and Nutrition Department, to Hartmann, dated 18 April 1985; and Bangladesh Government, Ministry of Health and Population Control, "Office Memorandum: Subject: Grant of Unapproved Inducements for Sterilization Acceptance", 25 March 1985.

27. See World Bank, *op.cit.*, p.1; and Akhter, "Sterilizing the Bangladeshi Poor: Western Donors' Strategy", Dhaka, Policy Research for Development Alternatives, 1985.

28. See World Bank, *op.cit.*, pp.5, 26.

29. North, *op.cit.*, Kanagaratnam, interview with Hartmann, Feb. 1984.

30. On the state of infant and maternal health, see Bangladesh Government, Ministry of Health and Population Control, **National Strategy for a**

Comprehensive Maternal and Child Health Program, Report of MCH Task Force, Dhaka, Feb. 1985.

31. World Bank, *op.cit.*, p.7.

32. See Akhter, *op.cit.*, July 1984, and Bangladesh Government, Ministry of Health and Population Control, Planning Commission and External Resources Division, "Population Control Program in Bangladesh, A Status Paper for the Bangladesh Aid Group Meeting to be held in Paris in April 1984", draft, p.15.

33. Budget figures from World Bank, *op.cit.*, p.11. Aid official quote from Hughes interview, Dhaka. On government priorities, see Ministry of Health and Population Control, *op.cit.*, Feb. 1985, and World Bank, *op.cit.*

34. Quoted in Akhter, *op.cit.*, March 1984.

35. S. Harbison, "Health Benefits of Family Planning", Revised Draft, 26 June 1984.

36. See World Bank, *op.cit.*, pp.8, 23-24. Findings of ICDDR study reported in James F. Phillips, Ruth Simmons, J. Chakroborty and A.I. Chowdhury, "Integrating Health Services into an MCH-FP Program: Lessons from Matlab, Bangladesh", **Studies in Family Planning**, Vol. 15, No.4, July/Aug. 1984.

37. Phillips et al, *op.cit.*

38. SIDA, *op.cit.*, p.3.

39. On the Drug Ordinance and the Bangladesh health system in general, see Francis Rolt, **Pills, Policies and Profits**, London, War on Want, 1985.

40. World Bank, *op.cit.*, pp.67-68.

41. *Ibid.*, p.69.

42. *Ibid.*, p.27.

43. Letter from C.J. Allison to Gretchen Handwerger, World Bank Senior Loan Officer, 28 March 1985.

44. Various personal communications.

45. "Status of Clients Compensation and Workers Reward and Disincentive System in Bangladesh's Ministry of Health and Population Control", Dhaka, 23 April 1985.

46. Hughes' interview.

47. See, for example, World Bank, **World Development Report 1984**, Oxford: Oxford University Press, 1984.

48. See, for example, Loes Keysers, "Does Family Planning Liberate Women?", Thesis: M.A. in Development Studies, Institute of Social Studies, The Hague, May 1982. This study is an excellent examination of the difference between birth control used as a tool of population control and birth control as a basic woman's right.

49. N. Kabeer, "Organising Landless Women in Bangladesh", **Community Development Journal**, Vol.20, No.3, 1985.

Appendix 1

THE UNFPA'S LEAKED LETTER

Walter Holzhausen, UNFPA's Dhaka representative, believes that the aid community's considerable pressure on the Bangladesh government to accelerate population control efforts is not strong enough. More frank than most, he is prepared to drop the liberal mask of voluntarism and openly support compulsion. He claims his views are shared by many other officials, but some were alarmed enough to leak the following letter to the press.

Dr Nafis Sadik *18 January 1984*
Assistant Executive Director
UNFPA
NEW YORK

STRICTLY CONFIDENTIAL

Dear Dr. Sadik

Recent discussions in Dhaka during UNFPA'S 1983 Annual Country Review prompt me to write to you on a matter of principle to which donors and UNFPA attach great importance but which, to my mind, needs reconsideration in the light of the realities prevailing in some developing countries such as Bangladesh: I refer to the concept of "voluntarism" – voluntarism as regards adopting, or not adopting, family planning; not voluntarism as to the choice of the method used.

During the discussions among donors last year leading to the preparation of the joint "Discussion Paper", donors went out of their way to avoid using any language that could be interpreted as advocating any form of direct or indirect pressure on couples to apply family planning methods. None of the donors would have liked to be associated with a more forceful programme, particularly not the Scandinavian countries. UNFPA strictly adheres to the same principle of voluntarism and so does the World Bank and thus every reference (e.g. the mentioning of the word "disincentive") in the said paper that could be interpreted as being in conflict with the voluntary nature of the programme was carefully eliminated – and yet, most donor representatives here greatly admire the Chinese for their achievements; a success story brought about by massive direct and indirect compulsion.

On the Bangladesh Government side, too, the voluntary nature of the family planning effort is constantly asserted as it is again in a recent draft paper to be circulated to donors in Paris during the April 1984 World Bank Consortium Meeting. Government does so, partly because they wish to please donors and partly because no-one dares to openly talk differently. Yet, also on the Government side I notice the intellectual dishonesty: for also Government officials constantly speak with admiration and envy of the Chinese successes and are more than worried about the prospect that the now revised goal of NR.1 in the year 2000 would mean 250-300 million people in 2050 or 2080 – a menacing thought! Talking privately to Bangladesh top officials associated with population control (both in the Health Ministry and in the Planning Commission) you hear the almost unanimous view that drastic action is needed and that a new dimension needs to be added to the current "voluntary" programme: no one really doubts the need for massive direct or indirect intervention by Government to limit the size of families; nor does anyone seriously believe that Bangladesh has the money or the time to establish better MCH services and better educational facilities as a precondition for making voluntary family planning more successful.

As I see it, voluntarism is based on the idea that couples should have the right – the basic human right – to determine the number of its children. But what is a human right in one country may not be a right in another. If couples in Bangladesh decide to have a big family they endanger the well-being of their compatriots and threaten the very existence of the next generations of Bangladeshis. Thus having a large family in Bangladesh is anti-social and contrary to the common weal and, hence, a matter that deserves drastic Government intervention. On the other hand, having a big family in "underpopulated" Zaire may not be anti-social and family planning there should therefore rightly be purely voluntary to meet the demand of human rights. The question of human rights as it relates to the size of a family needs different interpretation in different countries!

It is time for donors to get away from too narrow an interpretation of the concept of voluntarism and certain Governments in Asia using massive incentive schemes, including disincentives and other measures of pressure, still deserve international support. In the Bangladesh context donors' insistence on voluntarism may even be considered as an "infringement" of human rights by posterity in the sense that it delays drastic actions thought necessary by many quarters in Government in the interest of safe-guarding the right to exist of the next generation of Bengalis.

Maybe my views are too advanced and as UNFPA Representative I shall be happy to toe the official line as I have done in official discussions. Yet, I would be interested to hear your reaction to the subject of this letter.

With kind regards.

Yours sincerely,
Walter Holzhausen
Resident Representative

c.c. Miss N. Globerman, Deputy Assistant Administrator, RBAP, UNDP, New York
b.c.c. Mr. J. Norris, Director, USAID, Dhaka
b.c.c. Dr. Atiqur Rahman Khan, Chief Population Division, Planning Commission, Dhaka.
b.c.c. Mr. Roger Rowe, Chief of Mission, World Bank, Dhaka.

Appendix 2

MONTHLY STATISTICAL BULLETIN OF BD, JANUARY 1985
Bangladesh Bureau of Statistics, Dhaka

VOLUNTARY STERILIZATION AND DISTRIBUTION OF CONTRACEPTIVES IN BANGLADESH

Period	IUD (No) 'In 000'	Vasectomy (No) 'In 000'	Tubectomy (No) 'In 000'	Condoms (000 doz)	Oral Pills (000 cycle)	Emko (Phial) 'In 000'	Injection (No) 'In 000'	M.R. (No) 'In 000'
1973-74	28		1	937	485	10		
1974-75	49	14	5	733	1287	95		
1975-76	78	38	11	4562	5943	125	2	4
1976-77	59	75	41	2918	4639	59	3	7
1977-78	41	33	45	5447	7487	32	5	6
1978-79	23	26	82	4795	7121	39	11	4
1979-80	22	28	171	4865	6228	51	26	10
1980-81	38	27	225	7176	6627	59	66	27
1981-82	83	69	233	7736	7723	64	82	42
1982-83(p)	118	88	275	8730	8311	70	73	58
1983-84(p)	301	214	334	9886	9698	63	121	67
1983-84								
December	25	15	22	125	793	4	9	4
January	33	23	36	931	861	4	11	4
February	33	22	44	817	807	5	9	5
March	31	23	37	815	822	6	11	5
April	33	20	28	850	842	5	12	6
May	34	21	23	891	988	5	12	6
June	22	20	11	807	838	5	9	4
1984-85								
July	31	33	21	965	848	5	11	
August	35	29	23	206	12216	5	12	
September	31	34	28	1274	913	5	5	
October	38	47	42	1542	1039	6	14	
November	38	24	22	1511	979	7	13	
December	39	14	16	1587	1078	6	13	

Notes: Data shown above relate to distribution of materials and voluntary sterilization carried out.

Source: D.P.C.F.P.

Appendix 3

A few case studies of promises of wheat for sterilization

Case 1:

I am 30 years old. My husband is a day labourer. He does not get work everyday. He earns Tk8.00 to Tk10.00 per day and sometimes Tk20-25 per day. We have a little bit of land, but for the last three years we have not been able to grow any paddy because of floods. During the last flood we lost everything. The house is damaged. We only managed to put up the house again and did not get any help.

I have three children. My eldest son is 15 years old and the youngest 5 years old. I was sterilized last year. I was told by the family planning worker that they would give me money, a sari and wheat. I also went to the chairman. I thought that if I get the money, it will be spent as soon as I bring it home.' But if I get the card for receiving wheat, then I will get wheat weekly or monthly. With this hope in mind, I agreed to undergo the sterilization operation, but I was given only a sari and Tk100.00. No card or wheat was given. When I complained to the chairman, he said, 'Let's give wheat to the new clients first. If there is extra, then we will give you some'.

I have been suffering from different health problems after the operation. Nausea, weakness and pain in my abdomen are very frequent. They gave me medicines for only 7 days — some tablets. The hospital is 6 miles from here. We have to buy a ticket costing Tk3.00 to receive medicine from the hospital. If we return after 7 days, we have to buy another ticket, and then they give only 2-4 medicines. Sometimes they say, 'come another day'.

Case 2:

I am 30 years old. My husband is 45 years old. He works as a day labourer and earns only Tk8.00-Tk10.00 per day. He is the only income earning member of the family. We need 3 kilos of rice everyday but cannot afford this amount. Our house is made of *gol pata* and has only one room. This time we lost everything in the flood. We have a little bit of land but have not been able to grow any crops for the last 5 to 6 years.

I have 5 daughters and one son. The youngest daughter is one year and two months old. I never used any contraceptives before sterilization. The family planning worker came to me and said that they would give me Tk250.00, a sari, and wheat weekly. I was also given a card. I was supposed to get wheat if I showed the card.

After the operation I received only a sari and Tk175.00. I was given 5 kilos of wheat. The card has now been taken away by the chairman. I have been feeling very weak and have pain in my abdomen. I cannot buy medicine for pain.

Case 3:

I am 38 years old. My husband is 45, he works as a day labourer. He gets Tk10.00 per day and two meals. We do not have any cultivable land. The homestead is on about 5 decimals of land. The house was damaged during the last flood.

The age of my eldest son is 15 years and that of the youngest son is 5 years. I was sterilized 7 months ago. The family planning worker told me that if I underwent sterilization, then the chairman would give me wheat every month. I would also get different kinds of help from the government. Only because of these promises did I agree to undergo the operation in the health centre.

I was given some tablets and capsules for seven days after the operation. After that I did not receive any other medicine even though I had problems. Nor did I receive any help from the government or wheat from the chairman.

Appendix 4

This is the kind of card issued to poor women who were forced to undergo sterilization in order to receive relief wheat. It was copied down by independent researchers, who omitted the woman's name and location for fear she might suffer retribution at the hands of local authorities.

CERTIFICATE

This is to certify that Mrs .... w/o .... vill.......... union .... dist .... was sterilized in the health centre today the 25.6.84. She is given necessary medicines, sari and money.

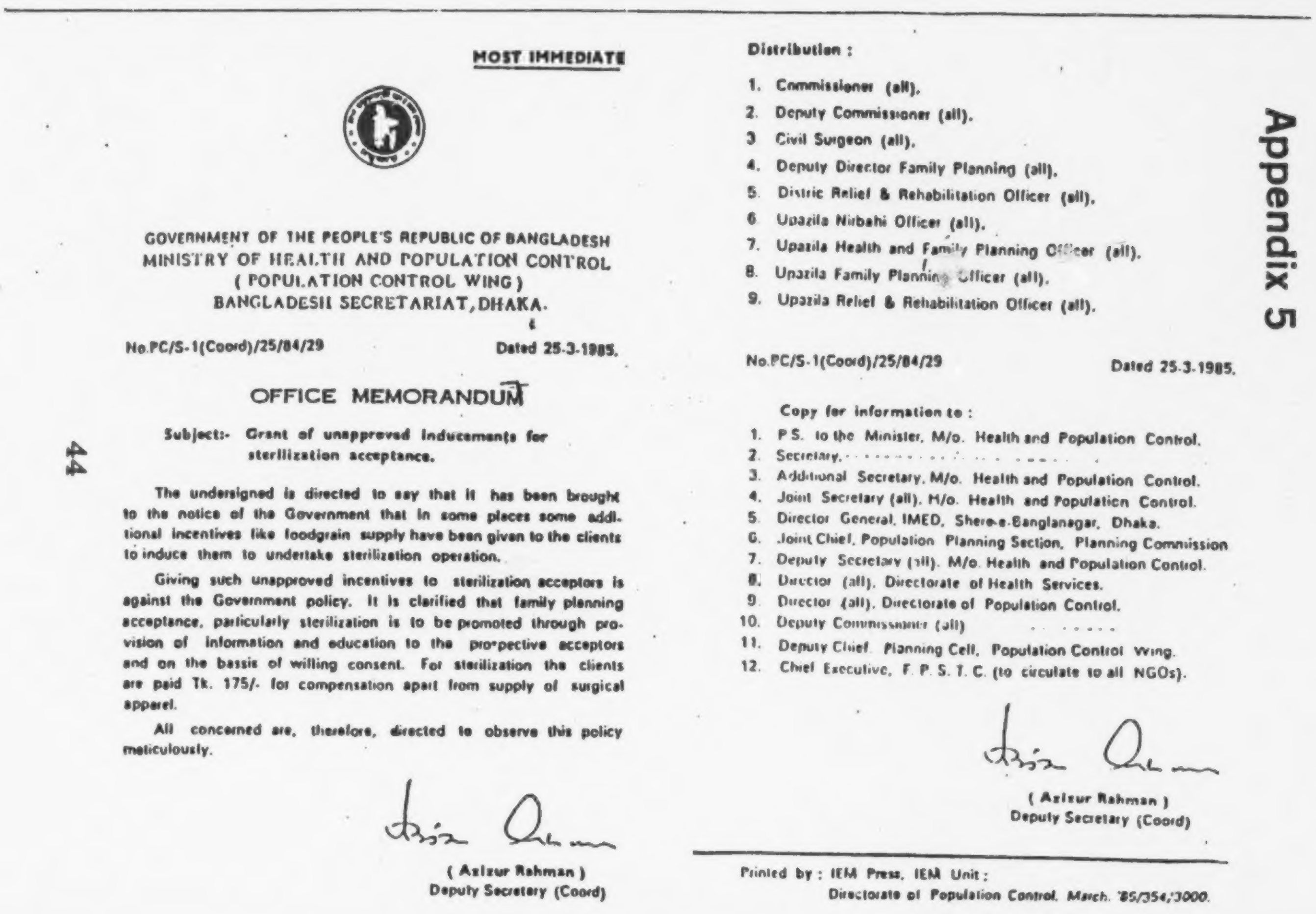
She can be given the food under government relief.

thana Family Planning Officer
1984

Sign.
Chairman
1984

Sign.
Member
1984

Appendix 5



MOST IMMEDIATE

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH
MINISTRY OF HEALTH AND POPULATION CONTROL
(POPULATION CONTROL WING)
BANGLADESH SECRETARIAT, DHAKA.

No.PC/S-1(Coord)/25/84/29 Dated 25-3-1985.

OFFICE MEMORANDUM

Subject:- **Grant of unapproved Inducements for sterilization acceptance.**

The undersigned is directed to say that it has been brought to the notice of the Government that in some places some additional incentives like foodgrain supply have been given to the clients to induce them to undertake sterilization operation.

Giving such unapproved incentives to sterilization acceptors is against the Government policy. It is clarified that family planning acceptance, particularly sterilization is to be promoted through provision of information and education to the prospective acceptors and on the bassis of willing consent. For sterilization the clients are paid Tk. 175/- for compensation apart from supply of surgical apperel.

All concerned are, therefore, directed to observe this policy meticulously.

(Azizur Rahman)
Deputy Secretary (Coord)

Distribution :

1. Commissioner (all).
2. Deputy Commissioner (all).
3. Civil Surgeon (all).
4. Deputy Director Family Planning (all).
5. Distric Relief & Rehabilitation Officer (all).
6. Upazila Nirbahi Officer (all).
7. Upazila Health and Family Planning Officer (all).
8. Upazila Family Planning Officer (all).
9. Upazila Relief & Rehabilitation Officer (all).

No.PC/S-1(Coord)/25/84/29 Dated 25-3-1985.

Copy for information to :

1. P.S. to the Minister, M/o. Health and Population Control.
2. Secretary, ...
3. Additional Secretary, M/o. Health and Population Control.
4. Joint Secretary (all), M/o. Health and Population Control.
5. Director General, IMED, Shere-e-Banglanagar, Dhaka.
6. Joint Chief, Population Planning Section, Planning Commission
7. Deputy Secretary (all). M/o. Health and Population Control.
8. Director (all). Directorate of Health Services.
9. Director (all). Directorate of Population Control.
10. Deputy Commissioner (all) . . . . . .
11. Deputy Chief. Planning Cell, Population Control Wing.
12. Chief Executive, F. P. S. T. C. (to circulate to all NGOs).

(Azizur Rahman)
Deputy Secretary (Coord)

Printed by : IEM Press, IEM Unit ;
Directorate of Population Control. March. '85/354/3000.

Appendix 6

Early day motion put down by Jo Richardson, Labour MP on 4th July, 1985

38 SIGNATURES AS OF 31.7.85

"This House is appalled that many starving women in Bangladesh are being denied emergency food rations unless they agree to be sterilized. Deplores the improper methods used by the military Government of Bangladesh in their sterilization campaign including the practice of not telling women that the operation is irreversible and calls on Her Majesty's Government to continue to withhold its £6 million aid contribution until these abuses are rectified and also to impress upon the Government of Bangladesh that civilised people throughout the world are affronted that women should be offered the blackmailing choice: sterilize or starve."

AGENCY FOR INTERNATIONAL DEVELOPMENT

DRAFT

FOREIGN SERVICE
EMPLOYEE EVALUATION REPORT

Instructions for Completing the Employee Evaluation Report

This set of instructions and checklist should be read carefully before filling out the EER. Specific instructions for completing each section appear on the back of each page.

All parts of the EER must be filled in (except for Section 6, Rated Individual's Comments) and completed in the space provided. Continuation sheets may not be added except for Section 6, Rated Individual's Comments.

Long, unbroken paragraphs detract from the readability of the document and are unfair to Rated Individuals. Only standard size type (10 or 12 pitch) may be used. Small or reduced type is prohibited. Crowded margins, as well as squeezed lines are also disallowed. If EERs are to be prepared on word processing equipment, the entries must be protected by a password.

Personnel involved in the preparation of this form and its processing are to ensure that the completed Employee Evaluation Report is neat and easy to read before submission.

EER Responsibility Checklist

The following individuals are responsible for completing the sections of the EER indicated:

Rated Individual	Rater	Reviewer	Endorsement
Sec. 1, Part B Sec. 1, Part C* Sec. 2, Col. 1* Sec. 2, Col. 2* Sec. 2, Col. 3* Sec. 6 Sec. 8, Part C	Heading Information Sec. 1, Part A Sec. 1, Part B Sec. 1, Part C Sec. 2, Part A, (Cols 1,2 and 3, incl. ratings) Sec. 2, Part B (as approp.) Sec. 3, Parts A,B,C, and D Sec. 4, Part A (if approp),B & C Sec. 8	Sec. 1, Part A Sec. 1, Part B Sec. 3, Part B Sec. 3, Part C Sec. 3, Part D Sec. 4 Sec. 5	Sec. 7 - Mission/AID/W Review Panel Sec. 8 - Mission/AID/W Office Director

*draft

Entries may be initialled by the responsible author. Signatures of the Rated Individual, the Rater, and the Reviewer will be put on the Header of the EER when it is completed.

Editors note.--It should be noted that this proposed form has not yet been negotiated with the exclusive representative of A.I.D. Foreign Service employees. Consequently, revisions are possible, and perhaps even likely, before it is implemented.

Page 2

Rated Individual's Name (Last, First, MI)	Pay Plan/Grade	Type of Report ☐ Career Member or ☐ Career Candidate or ☐ Other ____ (specify)
Rated Individual's Signature	Date	Backstop
Social Security Number	Post/AID/W Office	☐ Regular or ☐ Interim Change of: ☐ Rater or ☐ Duties, or ☐ Assignment
Official Job Title		Period Covered: (MO/YR) TO (MO/YR)
Functional Job Title (If different)		(For Personnel Use)
Rater's Name	Class	Functional Job Title
Rater Signature Date	Backstop	Rater Social Security Number
Reviewer Name	Class	Functional Job Title
Reviewer's Signature Date	Backstop	Reviewer Social Security Number

SECTION 1 - BASIS FOR RATING AND PERFORMANCE APPRAISAL REVIEWS

A. Rater/Reviewer Contact - Rating is based on the indicated amount of job-related contact with Rated Individual.

	Daily	Weekly	Biweekly	Monthly	Less Frequently
Rater	☐	☐	☐	☐	☐
Reviewer	☐	☐	☐	☐	☐

Length of Time: Rated Individual has been in present position ______ mos.
Rater has supervised Rated Individual ______ mos.
Reviewer has been in reviewing position ______ mos.

Special Circumstances (Optional):

B. Performance Appraisal Reviews - The Rated Individual's performance goals were established on ______ (date)
______ Rater Initials/Rated Individual Initials. The performance goals were reviewed on ______ (date) Reviewer Initials
Midyear review: ______ (date) Rater Initials/Rated Individual Initials/Reviewer Initials

C. Description of Position - Describe briefly where Rated Individual's position fits in the organization and those job functions performed by the Rated Individual (include, e.g., significance of functions to the mission/office, scope of program/technical responsibilities, and number of employees supervised).

DRAFT

SECTION 1 - BASIS FOR RATING AND PERFORMANCE APPRAISAL REVIEWS

Part A. To be completed by the Rater and Reviewer.

Indicate the amount of job-related contact with the Rated Individual and length of time of the rating relationship. This section must be completed by both the Rater and Reviewer. Reviewers have the option of completing the remaining Reviewer sections of this form if they have been in the position for less than 90 calendar days. Completion of all Reviewer sections is mandatory if the Reviewer has been in the job 90 days or more, unless special circumstances are applicable.

Special Circumstances (Optional). This space should be used to indicate any special circumstances which affect the amount of Rater and Reviewer contact. Special circumstances include, but may not be limited to, extended time away from post, temporary duty, and leaves, as well as job functions that are not performed in a relatively near geographical proximity to the Rater and/or Reviewer. In those highly unusual cases where the Reviewer has had insufficient contact with the Rated Individual to properly evaluate the Rated Individual's performance, the Reviewer should indicate, "insufficient contact to review Rated Individual," and explain and justify this statement in Section 5, Reviewer's Comments. Under these unusual conditions, the Reviewer should not complete Sections 1B, 3B, 3C, 3D, and 4.

Part B. To be completed by the Rated Individual, the Rater and the Reviewer.

The Rated Individual's performance plan in Section 2 must be established within 30 calendar days of the beginning of the rating period or within 30 calendar days of the assumption of duties of the Rater or the Rated Individual at the post or AID/Washington office. The Reviewer's initials indicate concurrence that the job functions and objectives are realistic and appropriate for the work of the unit. The midyear review of the Rated Individual's work plan and performance should be conducted approximately half way through the rating cycle and documented by the initials of the Rater, Rated Individual and the Reviewer in this section.

Part C. To be drafted by the Rated Individual and put in final by the Rater.

Indicate where the Rated Individual's position fits in the organizational structure and briefly describe the main job functions to be performed by the Rated Individual. An example:

DRAFT

> Mr. Adams is the Chief of the Agricultural Development Office at USAID/A. He is one of five Office Chiefs who report to the Deputy Mission Director who in turn reports to the Mission Director. The Agricultural Office is responsible for the overall planning, development, direction and assessment of agricultural and rural development programs, including providing technical advice and assistance to the USAID Mission and XXX Ministry of Agriculture and Rural Affairs. The Ag Office portfolio includes 00 projects worth $00 million in AID funds with and expected $00 million in disbursements for the rating year. Mr. Adams supervises a staff of 2 US Direct Hires, 2 Foreign Service National professionals, 2 Foreign National secretaries and 1 US PSC employee.

SECTION 2 - PERFORMANCE PLAN AND APPRAISAL
Part A
Column 1 - Job Functions and Specific Objectives

To be drafted by the Rated Individual and put in final by the Rater.

NOTE: Raters and Rated Individuals are encouraged to use the Performance Plan and Appraisal Worksheets (Pages 11A and 11B) in drafting the Plan and for mid cycle changes and reviews. Pages 3A and 3B should be used for the final version of the EER.

This part of the EER describes job functions and specific objectives for the rating period. These functions will normally be a mixture of continuing responsibilities and tasks to be completed during the rating period. A typical Rated Individual will have 6-10 functions. No more than two sheets may be used to present the Individual Performance Plan, including changes therein. Spacing of functions and specific objectives in Column 1 should take into account the later recording of actual achievements opposite the function in Column 3. (See instructions for Columns 2, and 3 below.)

Job functions and specific objectives to be achieved are those determined essential to the success of the activity by the Rater and Reviewer. These entries will be prepared in draft by the Rated Individual and presented to the Rater who will accept or modify them and record them on the Worksheet. The objectives will then become the Rater's standards and be the basis for evaluating the performance of the Rated Individual.

Objectives should be outputs that are observable, realistic, measurable (if possible, including characteristics of quantity, quality, and timeliness) and contain qualifiers, where appropriate. Qualifiers should reflect the specific resources, e.g. budget, materials, personnel, decisions, equipment or other inputs not under the control of the Rated Individual.

Revisions in job functions and specific objectives are to be made when significant changes occur during the rating period. Reasons for major changes and/or the inability to complete an assigned task (e.g., Local policy changes caused a suspension of sector funding prior to project approval) are to be noted, as appropriate, in the space provided in Part B of this Section.

Example of a job function and specific objective(s):

> " Team Leader responsible for comprehensive assessment of the Private Sector Marketing Program, including:
>
> - Planning for study and specification of responsibilities with Ministry of Economics,
> - Preparing documentation and procuring AID-financed consulting services,
> - Conducting field surveys and analyses, and
> - Completing draft report with review of issues, recommended strategy changes, and funding implications.
>
> If contracting funds are released by July, 1986, the draft report will be due for Mission review in March, 1987."

Column 2 - Importance

DRAFT

To be drafted by the Rated Individual and put in final by the Rater.

The importance of each job function and/or specific objective is designated by a percentage (%) which indicates the significance (not the amount of time devoted to it by the Rated Individual) of the assigned activity. The combined percentage of all job functions and specific objectives must equal 100%. As changes in job functions are made during the rated period, percentages of significance are to be adjusted if necessary so that they have a combined total 100% at all times.

It is important for the Rated Individual to be informed of performance requirements as early as possible in the rating cycle. Accordingly, Performance Plan job functions and specific objectives and their respective importance (Columns 1-2) must be developed by the Rater and Rated Individual within 30 calendar days of the beginning of the rating period or within 30 calendar days of the assumption of duties of the Rater or the Rated Individual at the post or AID/Washington office.

SECTION 2 - PERFORMANCE PLAN AND APPRAISAL
Part A
Column 1 - Job Functions and Specific Objectives

DRAFT

To be drafted by the Rated Individual and put in final by the Rater.

NOTE: Raters and Rated Individuals are encouraged to use the Performance Plan and Appraisal Worksheets (Pages 11A and 11B) in drafting the Plan and for mid cycle changes and reviews. Pages 3A and 3B should be used for the final version of the EER.

This part of the EER describes job functions and specific objectives for the rating period. These functions will normally be a mixture of continuing responsibilities and tasks to be completed during the rating period. A typical Rated Individual will have 6-10 functions. No more than two sheets may be used to present the Individual Performance Plan, including changes therein. Spacing of functions and specific objectives in Column 1 should take into account the later recording of actual achievements opposite the function in Column 3. (See instructions for Columns 2, and 3 below.)

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Revisions in job functions and specific objectives are to be made when significant changes occur during the rating period. Reasons for major changes and/or the inability to complete an assigned task (e.g., Local policy changes caused a suspension of sector funding prior to project approval) are to be noted, as appropriate, in the space provided in Part B of this Section.

Example of a job function and specific objective(s):

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>
> - Planning for study and specification of responsibilities with Ministry of Economics,
> - Preparing documentation and procuring AID-financed consulting services,
> - Conducting field surveys and analyses, and
> - Completing draft report with review of issues, recommended strategy changes, and funding implications.
>
> If contracting funds are released by July, 1986, the draft report will be due for Mission review in March, 1987."

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Page 3A

SECTION 2 - PERFORMANCE PLAN AND APPRAISAL

Rated Individual's Name____________________

Part A JOB FUNCTIONS AND SPECIFIC OBJECTIVES TO BE ACHIEVED	IMPORT-ANCE	ACTUAL ACHIEVEMENTS	Far Exceeded	Exceeded	Fully Achieved	Partially Achieved	Failed to Achieve
DRAFT							

SECTION 2 - PERFORMANCE PLAN AND APPRAISAL

Rated Individual's Name____________________

Part A (Continued) JOB FUNCTIONS AND SPECIFIC OBJECTIVES TO BE ACHIEVED	IMPORTANCE	ACTUAL ACHIEVEMENTS	Far Exceeded	Exceeded	Fully Achieved	Partially Achieved	Failed to Achieve
	100%						

DRAFT

PART B: Describe special circumstances, if any, that influenced the work environment or forced significant changes in the work plan during rating period.

Rated Individual's Name____________________

SECTION 3 - PROFESSIONAL WORK AND PERFORMANCE CHARACTERISTICS (All individuals will be rated in Parts A and B. Managers and, as appropriate, Supervisors will also be rated in parts C and D.)

A. All Individuals - Raters are to indicate the Rated Individual's work characteristics in accordance with the following rating scale: 1=Unsatisfactory, 2=Improvement Desirable, 3=Fully Competent, 4=Excellent, 5=Exceptional. "N/A" (Not Applicable) may be used. Two blanks are provided at the bottom of the list which may be used by the Rater to add other characteristics which were particularly relevant to the job situation during the rating period.

Rater

____ ADAPTABILITY: Adjusts well to new or changing situations

____ ANALYTICAL ABILITY: Identifies all elements, interrelationships, and issues in complex subjects

____ DECISIVENESS: Sorts out options and chooses proper course of action in a timely manner

____ DEPENDABILITY: Consistently accomplishes necessary actions within required time frames

____ GRACE UNDER PRESSURE: Performs effectively under pressure and/or environmentally difficult conditions

____ IMPLEMENTATION SKILLS: Translates an assignment or project into appropriate intermediate steps and carries them out effectively

____ INITIATIVE: Begins and follows through on actions with minimum guidance and supervision

____ INNOVATIVENESS: Introduces improvements in methods and systems which are workable and cost effective

____ INTEGRITY: Deals with others in an honest and professional manner

____ JOB KNOWLEDGE: Understands job functions, responsibilities and operational procedures

____ JUDGMENT: Takes prudent actions or decisions regarding work-related situations and as a member of the Service

____ LANGUAGE SKILLS: Learns and uses foreign language(s) important to position and/or assignment

____ MONITORING: Establishes adequate controls and records progress of activities and use of all resources

____ ORAL COMMUNICATIONS: Speaks clearly and concisely and presents position in an effective manner

____ PLANNING AND ORGANIZING: Anticipates future conditions and requirements, sets priorities, and arranges work and resources to maximize results

____ QUALITY OF WORK: Produces substantive scope, accuracy, and attention to detail expected of his/her grade level

____ RESPONSIBILITY: Capable of making decisions on his/her own but accepts full accountability for actions or inactions

____ RESPONSIVENESS TO SUPERVISION: Accepts organizational decisions as well as suggested changes in work/behavior

____ TACT: Says or does what is appropriate without giving unnecessary offense

____ TEAMWORK: Contributes in a positive manner and works in harmony with colleagues and counterparts

____ TECHNICAL EXPERTISE: Provides sound technical advice and/or devises technically appropriate alternatives so that more worthwhile results are achieved

____ VOLUME: Produces the quantity of work required by the position

____ WRITING SKILLS: Prepares written communications which are useful, concise, and grammatically correct

____ ____

____ ____

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Rated Individual's Name____________________________

B. Based on ratings in Part 3.A, the Rater shall discuss below the three Work/Performance Characteristics of the Rated Individual which the Rater considers most valuable and the three characteristics where he/she would most benefit from improvement.

Most Valuable Characteristics:

1.

2.

3.

eviewer's Comments: (Comment on factors discussed above by the Rater, but may also cover any other Characteristics.)

reas for Improvement (Characteristics added by Rater on preceding page may not be discussed in this section.)

1.

2.

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3.

eviewer's Comments: (Comment on factors selected by the Rater, but may also cover other factors as Areas for Improvement.)

Rated Individual's Name________________________________

C. Managerial Performance Factors - Raters and Reviewers are to indicate the Rated Individual's managerial performance factors in accordance with the following rating scale: 1=Unsatisfactory, 2=Improvement Desirable, 3=Fully Competent, 4=Excellent, 5=Exceptional. Managers for the purpose of this section are those individuals whose principal duties involve the direction of personnel, projects, contracts, materials, and/or allocation or expenditure of funds. All managers will be rated on the following nine factors. "Not applicable" and "not observed" may not be used. One blank i provided for use by the Rater and/or Reviewer to add a managerial characteristic which was particularly relevant to the job situation during the rating period.

Rater	Reviewer	
___	___	Effectively integrates Agency policies into his/her work
___	___	Establishes high standards of performance for area(s) of responsibility
___	___	Establishes and meets realistic deadlines
___	___	Handles conflict and disagreements effectively
___	___	Is able to balance competing priorities
___	___	Manages personnel, materials and/or financial resources in an economic manner
___	___	Motivates others to perform their duties effectively
___	___	Thinks in strategic terms and uses long-range planning to advantage
___	___	____

For Supervisors Only: Managers who prepare performance evaluation reports on one or more direct-hire employees and/or direct and supervise the activities of one or more personal services contractors are considered supervisors for purposes this evaluation and must also be rated on the following eight factors using the 1 through 5 rating scale. "Not applicabl and "not observed" may not be used. One blank is provided which may be used by the Rater and/or Reviewer to add a supervisory performance factor which was particularly relevant to the job situation during the rating period.

___	___	Commands confidence and respect of subordinate(s)
___	___	Delegates authority and maintains appropriate feedback systems
___	___	Demonstrates concern for best interests of subordinate(s)
___	___	Develops subordinate(s)
___	___	Effectively supervises his/her area of responsibility
___	___	Implements Agency equal employment opportunity programs
___	___	Is objective, constructive, and timely in evaluating subordinate(s)
___	___	Keeps subordinate(s) well informed regarding assignments and work of unit
___	___	____

For Principal Officers of AID Overseas Organizations Only: (For following five items, use 1 through 5 rating scale described above.)

___	___	Capacity to understand the political, social, and economic context of the assignment
___	___	Development competence
___	___	Leadership effectiveness
___	___	Managerial competence
___	___	Relationships with senior officials of host government and international organizations

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Rated Individual's Name______________________________

D. Based on ratings given in Part 3C, the Rater shall discuss below the three performance factors of the Rated Individual which the Rater considers most valuable and two factors where the Rated Individual would most benefit from improvement. The Reviewer is to comment on factors selected by the Rater, but may also cover other Improvement Areas.

Most Valuable Managerial/Supervisory Performance Factors

1.

2.

3.

Reviewer's Comments: (Comment on factors discussed above, but may also cover any other performance factors.)

Areas for Improvement (Performance Factors added by Rater and/or Reviewer on the preceding page may not be discussed in this section.)

1.

2.

DRAFT

Reviewer's Comments: (Comment on factors selected by Rater, but may also cover other factors as Areas for Improvement

Rated Individual's Name______________________

SECTION 4 - ASSESSMENT OF RATED INDIVIDUAL'S POTENTIAL (To be completed by both the Rater and the Reviewer)

Rater	Reviewer	A. For Career Candidates Only:
☐	☐	Unable to assess potential from observations to date
☐	☐	Candidate is unlikely to meet the career expectations of the Agency
☐	☐	Candidate appears to have career potential but needs additional evaluated experience
☐	☐	Candidate should serve effectively over a normal career span
		B. Career Candidates and All Other Rated Individuals:
☐	☐	Has not demonstrated capacity for handling more responsibility
☐	☐	Indicates potential for assuming additional responsibility, however, more experience and/or training is needed
☐	☐	Has demonstrated potential to handle increased responsibility within current grade
☐	☐	Has already demonstrated potential to assume responsibility at the next higher grade level
☐	☐	Already has reached highest level in the Agency for his/her occupational category
☐	☐	Is one of those extremely rare persons who are within the top two percent of the Agency

C. Over the next five years, in what kinds of positions (e.g., supervisory, technical, program, managerial, line, or sta
can the Rated Individual make the greatest contribution to the Agency? Cite specific reasons for your assessment. If the
Rated Individual is not in a supervisory position at this time, both the Rater and the Reviewer should comment on his/her
supervisory potential. This assessment must be justified and based on assignments or activities where the Rated Individu
assumed the lead role in accomplishing a task.

Rater's Comments:

Reviewer's Comments:

DRAFT

SECTION 4 - ASSESSMENT OF INDIVIDUAL's POTENTIAL

The appropriate section is to be completed by both the Rater and the Reviewer.

The information provided in Part C must be confined to the spaces provided.

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SECTION 5 - REVIEWER'S COMMENTS The Reviewer is to comment on the Rated Individual's overall performance. He/she is also to comment on the validity of the Rater's evaluation (is it an accurate, inflated, or deflated rating?), the relationship between Rater and Rated Individual, and the manner in which the performance appraisal process was conducted by the Rater. If the Reviewer has not completed Sections 1B., 3, and 4 due to insufficient contact with the Rated Individual, justification for these unusual circumstances should be given here.

SECTION 6 - RATED INDIVIDUAL'S COMMENTS (Optional) The Rated Individual may comment on any aspect of this evaluation report, his/her job responsibilities and/or performance during the rating period. A continuation sheet may be used.

SECTION 7 - PANEL REVIEW OF REPORT This performance appraisal report: (a) does not include any inadmissible information, (b) is internally consistent, allowing for legitimate differences between Rated, Rating and Reviewing parties, (c) contains justification where required, and (d) points of contention are identified and adequately explained. (Space below is for discussing any uncorrected shortcomings in items 7(a) through 7(d)).

DRAFT

Mission/AID/W Office Review Panel Initials__________/__________/__________ Date__________________

SECTION 5 - REVIEWER'S COMMENTS

To be completed by the Reviewer.

Reviewers should take particular note of the Rater's entries under Actual Achievements (Section 2, Column 3) and ratings given to actual achievements (in columns to the right of Actual Achievements) and comment as instructed.

SECTION 6 - RATED INDIVIDUAL'S COMMENTS

To be completed by the Rated Individual.

The Rated Individual may comment on any aspect of the evaluation, including discussion of elements or aspects of the work which may not have been touched upon by the Rater or Reviewer. Like other entries, such may not include inadmissible statements. If needed, the Rated Individual may use up to one additional page for comments; but if such is included, it must be fastened in front of Section 8, Career Development and Training (designated Tear Off Sheet).

SECTION 7 - PANEL REVIEW OF REPORT

To be completed by the Mission or AID/W Office Reviewer.

The purpose of this Mission/AID/W Office Panel review is to ensure that the EER does not include any inadmissible information (see Chapter 10, Handbook 25), is internally consistent, contains justification where required, and points of contention are identified and adequately explained.

This panel must be objective in conducting the review and is to be given the full support of Rated Individuals, Raters, and Reviewers when attempting to clarify seemingly unjustified, erroneous, or inadmissible statements or other issues which do not lead to a fair, clear, well-documented evaluation of the Rated Individual.

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Page 10
(This page is not submitted to Tenuring or Selection Boards. It will be retained by the Career Development Office for internal M/PM use.)

Rated Individual's Name (Last, First, MI) Class Backstop Mission or AID/W Office Social Security Number

SECTION 8 - CAREER DEVELOPMENT AND TRAINING

A. Career Development. Describe below job-related experiences (e.g., work activities, on-the-job training, TDY, special detail) and the type of assignments during the next 1-3 years which would most enhance the Rated Individual career development. (Do not refer to a particular country or specific position in recommending assignment(s) unless commenting that the Rated Individual would benefit most by continuing in his/her present capacity.)

B. Training. Describe below the type of in-house or external training which would benefit the Rated Individual's work performance and career development. Areas you might consider include Economics, Management and Supervision, Program Design or Implementation, Contracts Management, Writing and Communication, Planning and Time Managment, Interpersonal Skills, etc. For regularly scheduled in-house courses, see Personnel's quarterly "FS Training Directory Report" or the latest semiannual "Training Course Schedule." It is not necessary to recommend training with every Employee Evaluation Report. Training recommendations should depend on the needs of the Individual and his/her career stage.

Availability of Rated Individual for Training:

☐ During next six months

☐ During next twelve months

☐ During next visit to the U.S., scheduled for______________________

☐ At the end of current assignment, scheduled for______________________

C. Rated Individual's comments. The Rated Individual should comment on the Career Development and Training recommendations made above.

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Note: The foregoing is designed to obtain information which would support improved performance or career development. However, recommendations above do NOT commit the Agency to provide the assignments or training recommended. Specific decisions are made in response to individual COARs and training applications (Form FS-182) and take many factors into account, e.g. Agency-wide admissions criteria, enrollment priorities in the quarterly Training Directory, funding, employee availability, career counselor recommendations, course relevance to each applicant's job. Conscientiously made training recommendations are nonetheless essential to the planning, budgeting and preliminary scheduling of courses and enrollees.

Signature of Rated Individual ______________________ Date ______________

Signature of Rater ______________________ Date ______________

Mission or AID/W Office Endorsement (Signature) ______________________ Date ______________

SECTION 8 - CAREER DEVELOPMENT (Tear Off Sheet)

To be completed by Rater, Rated Individual and Mission/AID/W Office Endorsement.

This Section will be removed by M/PM when the report is received in Washington; it will NOT be a part of the EER reviewed by tenure, pay, promotion, or retention Boards. The sheet will be used by appropriate career development and training specialists.

NOTE: The Rated Individual, the Rater and the Mission Director or AID/W Bureau or Officer Director must sign Section 8.

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SECTION 2 - PERFORMANCE PLAN AND APPRAISAL WORKSHEET

Rated Individual's Name________________________

PART A JOB FUNCTIONS AND SPECIFIC OBJECTIVES TO BE ACHIEVED	IMPORT-ANCE	ACTUAL ACHIEVEMENTS

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SECTION 2 - PERFORMANCE PLAN AND APPRAISAL WORKSHEET

Rated Individual's Name____________________

PART A (Continued) JOB FUNCTIONS AND SPECIFIC OBJECTIVES TO BE ACHIEVED	IMPORT-ANCE	ACTUAL ACHIEVEMENTS
DRAFT		
	100%	

PART B: Describe special circumstances, if any, that influenced the work environment or forced significant changes in the work plan during rating period.